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WEDNESDAY MARCH 10 1999



IMF in Brazil
Scheme to restore confidence
actually undermines it
Martin Wolf, Page 12



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WORLD NEWS

French police round up Basque terror suspects

French police yesterday arrested the alleged head of the military wing of the Basque separatist movement Eta and five other members. The most dramatic action taken against the group since last September's ceasefire in Spain came as Spanish prime minister José María Aznar visited Paris. Europe, Page 2

Holbrooke to press Milosevic
Veteran US negotiator Richard Holbrooke will today urge Slobodan Milosevic, the Yugoslav president, to give up his hardline position before Kosovo peace talks resume on Monday. Europe, Page 2

Solana suggests aid for Balkans
Nato secretary general Javier Solana wants the west to offer the Balkans political and economic benefits as well as military security. Nato, Page 3; Editorial Comment, Page 13

'Mr Yen' set to move on
Eisuke Sakakibara, known as "Mr Yen" for his reputed influence over the foreign exchange markets, is expected to leave his post as Japan's vice-minister of finance for international affairs this summer. Page 14

Khmer Rouge chief charged
Cambodia laid charges against Khmer Rouge chief Ta Mok, making him the first member of the group set to answer directly for the deaths of some 1.7m of his countrymen.

French blood trial ends
A French court acquitted former prime minister Laurent Fabius and one of his ex-ministers in an Aids-related case involving tainted blood. Europe, Page 2

Bomb blast hits German show
A bomb damaged a World War Two exhibition in the German city of Saarbrücken that has angered far-right groups with its claim that ordinary German soldiers took part in Nazi crimes.

India-Pakistan deal closes
India and Pakistan are close to an agreement that would mark a big improvement in their relations. Only details are said to be settled before they agree a cross-border electricity deal. Asia, Page 6

Iranian president visits Italy
Iranian president Mohammad Khatami began a state visit to Italy, seen as opening a new epoch in relations between the Islamic state and the west. The smiling face of Iran, Page 13

Ecuador crisis deepens
Banks were shut for the second day running in Ecuador and labour unions called a general strike. Americas, Page 5

UK chancellor cuts taxes
The UK government slashed taxes to the lowest levels in a generation as finance minister Gordon Brown unveiled what he called "a Budget for Britain to succeed in the new century." British economy, Page 8

Garlic farmers on the march
Spanish garlic farmers plan to demand European Union action to block rising imports of Chinese garlic. Spain is Europe's leading garlic producer.

BUSINESS NEWS

Telecom Italia may grant new voting rights in bid battle

Telecom Italia is considering enfranchising its non-voting savings shareholders as part of its defence against Olivetti's €53bn (\$57bn) hostile bid. The move could make Telecom Italia a much harder target for Olivetti to swallow. Companies and markets, Page 15; Lex, Page 14; Analysis, Page 16

Ahold, Dutch supermarkets
yesterday announced a €1.75bn agreement to buy Pathmark Stores, which runs 132 outlets around New York. Companies and markets, Page 15

Endesa, Spain's leading power
group, will have a second opportunity later this month to gain outright control of Enxesa of Chile, its main investment target in Latin America. International companies, Page 16

A single stock market to trade
the shares of Europe's top 300 companies moved closer when the London and Frankfurt stock exchanges unveiled plans to harmonise share trading. Companies and markets, Page 15

Fiat, the Italian motor
manufacturer, said it would soon issue a €1bn five-year loan to take advantage of favourable market conditions. International companies, Page 16

De Beers, South African diamond
group announced a halving of its total net profit last year to \$617m from \$1.23bn in 1997. International companies, Page 17

Microsoft is to announce a
partnership with China Telecom and the Chinese government in a project linking more than 40 government ministries to the internet. Asia news, Page 6

Anderson Consulting shrugged off
any effects of its separation from sister firm Arthur Andersen with a 25 per cent surge in 1998 global revenues to \$8.3bn. International companies, Page 17

Germany's main energy utilities
pulled out of "consensus" talks with the government on setting a timetable for the closure of the country's nuclear power stations. European news, Page 2

Bucci president Domenico De
Sole has agreed to reopen negotiations with French luxury goods group LVMH in a bid to resolve their legal battle. International companies, Page 17

British American Tobacco, which
next week publishes details of its proposed £5.28bn (\$8.5bn) takeover of Rothmans International, said its underlying performance was positive in spite of a 16 per cent fall in profits. Companies and markets, Page 15; Zurich adds charge, Page 17

Roche chairman Fritz Gerber
plans to step down in 2001 and hand over the Swiss group's chairmanship to chief executive Franz Hummer. International companies, Page 16

World Equity Markets

The latest trends and data from more than 50 national markets at a glance
Page 31

BRITAIN, SWEDEN, DENMARK AND ITALY THREATEN TO FORCE THROUGH LIBERALISATION

Ultimatum to Brussels on milk reform

By Michael Smith in Brussels

Four European Union countries yesterday threatened to force through full liberalisation of the union's milk market next year unless other governments agreed to its reform.

The warning came as EU farm ministers, meeting in Brussels, criticised proposals by Germany that would dilute a European Commission blueprint for wide-ranging changes to the common agricultural policy.

Diplomats said chances were rising for a deal this week and it was likely to be closer to the commission's proposals than those of the German government.

The commission wants to cut guaranteed prices for beef, cereals and milk by 30, 20 and 15 per cent respectively to enable the EU to enlarge eastwards and increase exports.

Last week Germany shocked fellow governments by suggesting the cuts be limited to 20 per cent. Price cuts are expensive because the EU is committed to paying farmers compensation for them. Germany said plans to lift production-limiting milk quotas should be shelved.

Nick Brown, UK agriculture

minister, said yesterday Britain, Sweden, Denmark and Italy were not prepared to accept the status quo on milk and, in the absence of reform, would block a continuation of current quota and price arrangements, which end next April.

"It is not my preferred option," said Mr Brown. "My over-riding objective is a workable reform. But I am not willing to vote for the continuation of quotas if milk remains unreformed." The governments of Sweden, Denmark and Italy agreed, he said.

The production-limiting milk quotas regime was introduced in 1984 and has remained unchanged since.

Diplomats said yesterday that one option was to delay completion of milk reforms by two years to 2006. Some countries could agree a lower price cut than the commission has suggested on beef - with 20 per cent one possibility - although most wanted to stick to 20 per cent on cereals.

Germany, in its role as EU president, was yesterday talking with the commission on a compromise to present to farm ministers on CAP reform today. Officials said the compromise would draw on suggestions from all countries including its own.



German agriculture minister Karl-Heinz Funke, right, talks to European farm commissioner Franz Fischler before a meeting in Brussels yesterday

Several ministers said yesterday that Bonn's dilution proposals - made in the name of Germany's farm ministry and not the presidency - were unacceptable.

Loyola de Palacio, Spanish agriculture minister, said she could not agree to the German proposals. "We need to do a proper reform," she said. Joe Walsh, Irish farm minister, said the German paper did not form the basis for a compromise.

France's Jean Glavany has welcomed Germany's proposals, having consistently argued that the commission's proposals are too radical and are unnecessary.

Yesterday Mr Glavany adopted a more conciliatory tone, suggesting a deal could be achieved by the end of the week.

Asked if delaying milk reform could be part of the deal, he said: "If we really want to make a mistake, the later the better".

RJR Nabisco sells global tobacco arm

By Andrew Edgecliffe-Johnson in New York

RJR Nabisco stunned analysts yesterday by selling its international tobacco business for \$6bn to Japan Tobacco. The move paves the way for a separation of its food and US tobacco businesses, which some had thought impossible.

RJR Nabisco, which has Camel cigarettes and Oreos cookies among its brands, headed off shareholder pressure for a break-up by saying it would spin off shares in the domestic tobacco business to shareholders.

Japan Tobacco, which controls four-fifths of its domestic market but has a limited overseas pres-

ence, is paying about 30 per cent more for RJR International than analysts had thought it might fetch.

Its offer, which includes taking on \$200m of RJR International's debt, is thought to have trumped bids from Philip Morris of the US, Seita of France and Tabacalera of Spain. Philip Morris said it examined the business "thoroughly", but was constrained by tax and antitrust problems.

As well as businesses spanning Asia and Eastern Europe, Japan Tobacco will take the international rights to Camel, Winston and Salem cigarettes.

Nyren Scott Malden of Credit Suisse First Boston said: "This price is amazing. This valuation

benchmark could be used to up ratings across the sector."

Japan Tobacco is paying 15 times operating cash flow, almost twice the multiple BAT Industries paid for Rothmans.

Shares in RJR Nabisco were up \$7 to \$29.9 in afternoon trading. Analysts said the market had previously placed a negative valuation on its tobacco assets, and feared a break-up was impossible, because of the threat of smoking-related litigation.

The tax-free spin-off of shares in RJ Reynolds Tobacco, the domestic cigarettes business, will leave RJR Nabisco as a holding company for its 80.6 per cent stake in Nabisco Holdings, its food division, which already has

a separate New York Stock Exchange listing.

The separation will not, however, insulate Nabisco from future tobacco litigation against the parent company - analysts had feared that the threat of "fraudulent conveyance" claims against RJR Nabisco could prevent a break-up of the group.

Steven Goldstone, RJR Nabisco's chairman and chief executive, said the food and tobacco businesses would "best be able to achieve their full potential under separate ownership structures".

The group would also reap "substantial" cost savings.

Lex, Page 14

BAT still upbeat, Page 15

Sony restructuring plan lifts shares 9%

By Michio Nakamoto in Tokyo

Shares of Sony jumped 9 per cent yesterday after the leading electronics and entertainment group unveiled an aggressive restructuring plan that would see the loss of 17,000 jobs, 10 per cent of its worldwide workforce, and the closure of 15 of its 70 factories.

The plan is aimed at refocusing Sony's traditional electronics businesses, which have been suffering from the strength of the yen and product price erosion, on internet opportunities. It is part of a far-reaching reorganisation aimed at ensuring survival in an increasingly competitive and fast-moving market.

"This is not a mere reorganisation. It is the only way for the Sony group to remain a young and active group in the 21st century," said Norio Ohga, chairman and chief executive.

Nobuyuki Idei, president, said: "Over the next three years, Sony will invest aggressively so that our electronics business, which is our core business, can evolve to best meet the needs of a network-centric world," but added "We want to look at those business areas that we don't need."

The electronics group, which provides about 60 per cent of total revenues, will remain the biggest revenue earner and one

of the group's three main business pillars, together with entertainment and insurance and finance businesses. But the reorganisation will enable Sony to consolidate and assume greater control over those units that are critical for the shift of focus.

As part of that move, Sony is taking three of its listed subsidiaries - Sony Music Entertainment (Japan), Sony Chemicals and Sony Precision Technology - back into the group as wholly-owned subsidiaries. In the fast-moving age of the internet, "speed is very important," said Mr Idei.

Within the electronics group, the existing operations will be consolidated into three segments focused on networks - the home network company, the personal IT network company and the core technology and network company.

Sony Computer Entertainment - which provided more than a third of Sony's operating profits in the nine months to December - will no longer be independent but part of this group.

"Sony's short-term problems have not disappeared, but its growth potential has increased," said Hitoshi Kuriyama at Merrill Lynch in Tokyo.

Japan wakes up, Page 17

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STOCK MARKET INDICES		
New York Composite	785.81	(+58.00)
Dow Jones Ind. Av.	2432.57	(+25.95)
NASDAQ Composite	1159.30	(+18.17)
Europe and Far East	4798.46	(+30.23)
CHX40	8227.7	(+28.3)
DAX	1289.35	(+16.84)
FTSE 100	1289.35	(+16.84)
FTSE Europe 300	1289.35	(+16.84)
Nikkei	1289.35	(+16.84)
US LUNCHTIME RATES		
Federal Funds	4.75%	
3-mth Treas. Bill	4.50%	
Long Bond	5.50%	
Yield	5.582%	
OTHER RATES		
UK 3-mo Interbank	5.75%	(53.14)
UK 10-yr Gilt	105.24	(106.73)
Euro Euro	3.067%	(3.069%)
Germany 10-yr Bund	97.11	(97.85)
Japan 10-yr JGB	100.768	(101.359)
MEXN 10-yr CIL (Mexico)	111.27	(111.535)
Brent Dated		

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Euro-zone target price €215. Prices in local currency at close		Prices on show	
Belgium	Dfr 3300	Denmark	0m.75
Denmark	Dfr10122.25	France	21.10.00
France	FF10122.25	Germany	DM10122.25
Germany	DM10122.25	Greece	€230 (€1.00)
Greece	€230 (€1.00)	Ireland	€230 (€1.00)
Ireland	€230 (€1.00)	Italy	€230 (€1.00)
Italy	€230 (€1.00)	Netherlands	ƒ10122.25
Netherlands	ƒ10122.25	Portugal	€230 (€1.00)
Portugal	€230 (€1.00)	Spain	€230 (€1.00)
Spain	€230 (€1.00)	Sweden	€230 (€1.00)
Sweden	€230 (€1.00)	Switzerland	€230 (€1.00)
Switzerland	€230 (€1.00)	UK	€230 (€1.00)
UK	€230 (€1.00)	USA	€230 (€1.00)
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WORLD NEWS

EUROPE

BASQUE SEPARATISTS CROSS-BORDER SECURITY CO-OPERATION GROWS BETWEEN FRANCE AND SPAIN

French police round up Eta suspects

By Robert Graham in Paris and Tom Burns in Madrid

French police yesterday rounded up the suspected head of the military wing of Eta, the Basque separatist movement, along with five other members. In the most dramatic action taken against the group since a ceasefire came into effect in Spain last year.

The move coincided with a visit to the French capital by José María Aznar, the Spanish prime minister. It also underscored France's determination to help the Spanish authorities prevent Eta reorganising its structures during the ceasefire that began last September.

The alleged head of Eta's military arm, Javier Arizuren-Ruiz, "Kantauri", was detained along with three others in an hotel in the 11th district of Paris. Two more Eta members were picked up in a flat in the 15th district, which police said was being used as a logistical base. All six were armed, but the anti-terrorist police involved in the operation reported no shots being exchanged.



Lionel Jospin, (right) France's prime minister, meets his Spanish counterpart José María Aznar in Paris yesterday. French police yesterday arrested Javier Arizuren-Ruiz (far right), the suspected head of the military wing of the Basque separatist group Eta.

French judicial authorities were yesterday expecting Spain to make a formal extradition request for the six arrested persons, five men and a woman.

The round-up was preceded by a visit last Friday

to Paris by the Spanish interior minister, Jaime Mayor Oreja. He is understood to have expressed to Jean-Pierre Chevènement, his French counterpart, the concerns of Spanish intelligence that Eta was taking advantage of the ceasefire to

rebuild its military organisation, damaged by infiltration and earlier arrests.

Two weeks ago, the separatist group had said it reserved the right to self-defence and to "act in order to

maintain necessary provisions". French and Spanish intelligence have recently monitored a number of car robberies in France that have been carried out by Eta activists. The vehicles were believed to have been used

for Eta's logistical operations, raising fears that the separatists were preparing some action.

Among those arrested was understood to be a member of Eta's so-called "Donosti" commando unit, active in bloody terrorist actions in the Basque country.

Eta's military wing has consistently used France as a safe haven for its personnel. However, close Franco-Spanish security co-operation has made it increasingly difficult to operate undetected on French territory. Some 60 Eta members are serving sentences in French jails and the justice ministry has declined to move them to prisons close to the Spanish border.

The peace process in the Spanish Basque country is being closely watched by the French, as it is expected to have a significant political and economic impact on their side of the border. Already there have been calls to set up a new administrative *département* for the French Basque country, carved out of the present Aquitaine.

Romania pressed on debt refinance

By Arkady Ostrowsky in London and Joe Cook in Bucharest

The International Monetary Fund is stepping up pressure on Romania to seek refinancing of \$983m of its external debt which falls due later this year, a move which could result in the country's default on its international bonds.

Emmanuel Zervoudakis, head of the IMF mission for Romania, said the release of the IMF financing package, which could be about \$450m this year, needed to stabilise its economy, depended on Romania's ability to renegotiate at least 80 per cent of its international bond payments falling due in May and June.

Mr Zervoudakis said the IMF had advised Romania to seek refinancing of its international bonds from Nomura and Merrill Lynch, the original bond underwriters.

"We should not be faced with a situation where the money from the IMF would be used to repay private creditors," he said.

However, bankers said international bonds could not be rolled over or refinanced in the same way as bank loans, because they were tradeable instruments.

"The IMF seems to assume that banks keep those bonds on their books, but they have been sold to investors a long time ago and the burden will be on the bond holder and not on their underwriters," said Juan Del Azar, managing director for emerging markets trading at Merrill Lynch.

Andrew Kenningham, emerging markets analyst at Merrill Lynch, said the only way to restructure an international bond was to default in order to reschedule payments to bond holders.

Adrian Vasilescu, a director of the National Bank of Romania, said: "Romania has always paid its debts and will continue to do so. As a last resort, our strategy is to roll over external debt, not to postpone it."

KOSOVO CONFLICT YUGOSLAV PRESIDENT UNDER PRESSURE OVER PEACE DEAL

Holbrooke to press Milosevic

By Guy Dimmore in Belgrade

Veteran US negotiator Richard Holbrooke, following where several European foreign ministers have failed before him, will attempt today to persuade Slobodan Milosevic, the Yugoslav president, to back down from his hardline position before Kosovo peace talks resume in Paris next Monday.

The US State Department said Mr Holbrooke would press Belgrade to accept in full the agreement drafted during 17 days of talks in France last month. The deal provides for broad autonomy for the Serbian province and its ethnic Albanian majority,

as well as 28,000 Nato troops to keep the peace.

Mr Milosevic has rejected both elements and over the past month has sent away the foreign ministers of Britain, Norway and Germany empty-handed. European diplomats were concerned that Mr Holbrooke had been given leeway by Madeleine Albright, US secretary of state, to cut a deal in Belgrade that they too will be forced to accept.

But they also recognised that Mr Holbrooke, who negotiated an end to the Bosnian civil war, was the only man Mr Milosevic would deal with. On his last trip to Belgrade, Chris Hill, the

chief US mediator at last month's talks did not even get an audience.

"The Yugoslav side has been tough and uncompromising. Meanwhile, there is fighting which concerns us greatly in parts of Kosovo," Mr Holbrooke said on arrival. He made no direct reference to Washington's repeated threats of Nato air strikes should Belgrade block a peace deal but said he would warn Mr Milosevic of the US "view of the consequences" if the situation did not improve dramatically.

Mr Holbrooke's mild choice of words reflects serious divisions among European governments over

using air strikes to force a political settlement.

Last October, after a government offensive that created 300,000 refugees and killed many civilians, Nato's threat carried credibility, allowing Mr Holbrooke to persuade Mr Milosevic to accept a ceasefire, reduce his forces in Kosovo and accept 2,000 unarmed monitors.

"That credibility is no longer there," one European diplomat commented. Also at stake is the credibility of Mr Holbrooke himself as he struggles to win political support for his nomination as ambassador to the UN.

Renewed fighting yesterday between Serbian secu-

city forces and ethnic Albanian rebels underlined the parlous state of the ceasefire. Mr Milosevic has also sent thousands of extra troops into Kosovo in breach of the October agreement.

Mr Holbrooke's ability to exert pressure on Mr Milosevic has been weakened by the Kosovo Liberation Army (KLA), which has also refused to sign the agreement. The State Department said Mr Hill had received a commitment to sign by the KLA leadership on Monday. But the rebels' official news agency has made no mention of this, warning instead that Serbian attacks had jeopardised the peace process.

CONSENSUS NEGOTIATIONS UTILITIES WANT RESOLUTION OF TAX DISPUTE FIRST

German energy sector pulls out of nuclear power talks

By Ralph Atkins in Bonn

Germany's energy industry yesterday pulled out of talks with the government on setting a timetable for the closure of the country's nuclear power stations.

Chairmen of the main energy utilities withdrew from so-called "consensus" talks with the government, pending resolution of a separate dispute over the tax burden they face as a result of legislation introduced by Oskar Lafontaine, finance minister.

After a meeting between industry leaders and Chancellor Gerhard Schröder, Dietmar Kuhn, chairman of RWE, the Essen-based power and industrial group, said that only after the tax issues had been considered could discussions take place on

nuclear power. The government said it expected the talks to resume after Easter, but the energy companies were privately sceptical.

Mr Schröder is seeking industry agreement on a phased shutdown of Germany's 19 nuclear power stations. The Bonn government had already been forced into a series of retreats before yesterday's meeting.

Last month, the government dropped plans for an early ban on the reprocessing of nuclear waste following strong protests from the energy industry. Later, Jürgen Trittlin, the Green environment minister, shelved the remainder of his proposed legislation that paved the way for a shutdown.

However, yesterday's meeting highlighted the difficulties Mr Schröder still

faces in reaching an amicable agreement on nuclear power. Veba, the Düsseldorf-based energy and industry group, described the meeting's atmosphere as "hard".

Failure to reach agreement would further heighten tension between Mr Schröder and his coalition partner, the Green party.

The finance ministry is to conduct talks with the energy industry about the impact of changes to the tax treatment of their massive reserves. The utilities estimate they face paying an additional DM25bn

(€12.78bn, \$13.92bn) tax as a result of Mr Lafontaine's reforms, due to obtain their final parliamentary approval on March 19. The finance ministry estimates the correct figure to be about DM10bn.

Haider closer to election victory

By Eric Frey in Vienna

Austria's far-right party leader Jörg Haider appears likely to be elected governor of the province of Carinthia, in what would amount to a dramatic political comeback.

Mr Haider's Freedom party won a decisive victory in local elections in Carinthia last Sunday, but he still requires votes from his political opponents if he is to win when the new regional assembly elects a governor within the next month.

The Social Democratic party and the conservative People's party, which make up Austria's ruling coalition and suffered heavy losses in Sunday's vote, yesterday reaffirmed their opposition to Mr Haider's candidacy. But they also indicated they would not feel able to prevent the charismatic populist from winning the governorship.

Both parties fear a backlash if they should be seen to deny the election's clear winner the spoils of victory. The People's party is expected to boycott the deciding vote and so leave Mr Haider with a majority.

The Freedom party last Sunday increased its share of the vote by 9 percentage points to 42 per cent and for the first time surpassed the Social Democrats, which fell back 4.5 points to 33 per cent.

The People's Party, which held the post of governor for eight years, dropped from 34 to 21 per cent.

Mr Haider's victory in Carinthia has put the ruling coalition in Vienna on the defensive ahead of nationwide elections later this year. The government of Chancellor Viktor Klima is now under pressure to offer significant tax cuts in the tax reform package planned for this year.

It may also take a harder line against a quick enlargement of the European Union, which Mr Haider opposes on the grounds that it would result in a flood of immigrants and threaten jobs in Austria.

NEWS DIGEST

EUROPEAN PARLIAMENT

UK under new pressure over EU budget rebate

Britain yesterday came under fresh political pressure to give up its European Union budget rebate, when the European Parliament's budget committee advised MEPs it should be phased out by the time new member countries joined the EU in the coming decade.

A committee report, drawn up by Jutta Haug, a German Social Democrat, said the rebate was agreed at a time when agricultural spending accounted for more than 70 per cent of the EU budget compared with less than 50 per cent today.

MEPs will vote on the proposal tomorrow. However, the parliament only has a consultative role on budgetary issues and the impact of the committee report may be weakened by its recommendation that 50 per cent of the EU's common agricultural policy should be "co-financed" by national budgets. That would leave national government's footing 50 per cent of the farm bill and undermine the UK's case for a substantial rebate.

In recent days, the German presidency of the EU has conceded that co-financing is politically unworkable because of French objections. Peter Norman, Strasbourg

GERMAN CITIZENSHIP REFORMS

Deal agreed on outline bill

Otto Schily, Germany's interior minister, has agreed with the opposition Free Democrats on the outline of a bill modernising German citizenship rules, a senior parliamentarian said yesterday.

Chancellor Gerhard Schröder was forced to back-track on his citizenship reform plans and seek a legislative compromise after a state election defeat cost his centre-left government its majority in the upper house of parliament, where the states are represented.

The apparent accord between Mr Schröder's Social Democrats and the centre-right Free Democrats increased pressure on the Greens, the junior government partner, who are holding out for a more ambitious overhaul of the 1913 citizenship law.

Rainer Brüderle, a Free Democrat parliamentarian negotiating with Mr Schily, said both had agreed that the new draft should allow dual nationality for children at birth but require them to choose one as young adults.

Annette Burtenbach of the Greens said that model was "very difficult". Mr Schröder's cabinet is scheduled to approve the bill next week. The government had wanted to make dual citizenship the rule rather than the exception in a bid to integrate more of Germany's 7.3m foreigners, about a quarter of them Turks. AP, Bonn

TURKISH ELECTIONS

Ecevit vows to fight delay

Bülent Ecevit, Turkish prime minister, said yesterday he would fight attempts to postpone national parliamentary elections planned for April, arguing any delay would bring chaos. Parliament will hold a special session on Saturday at the behest of 116 deputies dubbed the "disgruntled ones" by the media. Many have been struck from party lists by powerful party leaders or put so far down they cannot be re-elected.

Mr Ecevit said their petition amounted to a "civilian coup attempt". His words carried a particular poignancy in a country familiar with military interventions. "Politics in general and the economy [would] be pitched into chaos," he said. "We shall do all in our power to reverse this attempt at a delay."

Arithmetic militates against the disgruntled ones. They may not get the 184 deputies they need for a quorum and are most unlikely to gain the majority necessary to put off the polls. Reuters, Ankara

GENERAL KIDNAPPED

Chechnya challenge for Yeltsin

Boris Yeltsin, the Russian president, yesterday struggled to deal with a fresh challenge to his authority, the kidnapping of a Russian general in the breakaway region of Chechnya.

Major-General Gennady Shpigun, the Interior Ministry's representative in Chechnya, was abducted last Friday by gunmen who leapt out of the cargo bay of his Moscow-bound aircraft at an airport in Grozny, the Chechen capital. "This is a direct challenge," Vadim Gustov, the deputy premier said. "What would happen if they seized a general in America or any other country?" Mr Yeltsin was scheduled to see Mr Stepashin yesterday to discuss the kidnapping.

Sergei Stepashin, interior minister, had set a harsh tone in dealings with Chechnya on Monday, saying Moscow's patience was running out and it might impose sanctions on Chechnya or attack rebel bases. In Grozny, the spokesman for Aslan Maskhadov, the Chechen President made it clear he was unhappy and that there was anger on both sides. Reuters, Moscow

FINNISH AIR TRAFFIC CONTROLLERS

Strikers to end stoppage

Finnish air traffic controllers have agreed to end a five-week strike that has crippled the country's domestic airline network and disrupted international services following a revised pay offer from Ilmailuallios, the civil aviation authority.

Finland's 250 controllers voted to accept a 13 per cent pay rise over three years, even though they had been seeking a 26 per cent increase and benefits including company cars. The strike had threatened to overshadow the last two weeks of campaigning before Finland's March 21 general election, in which the ruling coalition is urging continued wage moderation. It also prompted warnings from Finnair, the country's flag carrier, that it was losing Fm455m (€9.25m, \$10.07m) a week because of the disruption. Ilmailuallios, which originally offered the controllers a 12 per cent rise, said the dispute had been resolved shortly before the second two-day shutdown of Helsinki's Vantaa airport. Some politicians have urged the government to introduce legislation following the election compelling specialist workers, such as air traffic controllers, to take part in binding industrial arbitration in the future. Tim Burt, Stockholm

FARM AGENCY CORRUPTION PROBE

Polish minister urged to quit

Poland's agriculture minister came under renewed pressure to resign yesterday after a newspaper said a state auditors' report had linked an agency he had headed to financial irregularities.

The daily Gazeta Wyborcza called Jacek Janiszewski to step down on the basis of what it said were leaks from the report. The supreme auditing chamber confirmed it had investigated the Farm Property Agency in Szczecin province, which Mr Janiszewski had headed between 1992-1995. But it declined to give details, saying its report had not yet been finalised. Warsaw, Reuters

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WORLD TRADE

UNCTAD REPORT ON GLOBAL ECONOMY

Rich 'must be ready to pump in liquidity'

By Frances Williams in Geneva

The world's rich nations should consider direct injections of liquidity into developing countries if further financial instability threatens a global recession, says a report from the United Nations Conference on Trade and Development.

As a consequence of financial turmoil in Brazil, world growth is set to be at the low end of gloomy forecasts by the International Monetary Fund, the Organisation for Economic Co-operation and Development and others last year. Growth this year could have to 1 per cent from an estimated 2 per cent in 1998 and 3.2 per cent in 1997.

The 1999 outlook reflects continued stagnation in Japan, slowing growth in the US and Europe and possible recession in Latin America. Though Asia is expected to

do better than in 1998, this is mainly because the economies most affected by the Asian financial crisis have ceased to shrink.

The downside risks to the world economy have also become more acute in recent months. Unctad warns of the possibility of a sharp correction in equity prices in industrial countries coupled with a rise in risk aversion, and hence further declines in capital flows to emerging markets.

The report, prepared for the Association of South-East Asian Nations (Asean), says policymakers in the industrialised world hold the key to global economic recovery, but that imaginative responses are needed to combat the effects of shrinking financial flows.

While there is plenty of scope in the US, the European Union and Japan to use

fiscal expansion to combat economic slowdown, this may not be sufficient on a global scale if the crisis deepens, the report says.

It suggests instead that the EU and Japan "recycle" part of their current account surpluses to cash-starved developing countries through official channels "to raise demand, imports and growth". This could be done in three ways:

- debt relief through a rapid write-off of unpayable official and multilateral debt;
- regional aid plans to pump funds into the crisis-ridden Asian economies;
- a substantial allocation of Special Drawing Rights to developing countries and economies in transition from communism.

Global Economic Conditions and Prospects, Unctad, Palais des Nations, CH-1211 Geneva 10

Music industry seeks to curb internet recorders

By Alice Rawsthorn in London

Record companies have become concerned about the growing availability of inexpensive, easily operable internet recorders, such as the Rio, a \$200 product developed by Diamond Multimedia in California.

The music industry is trying to find ways of curbing the rising use of portable recorders that can be used to store and play pirated music posted on unauthorised internet sites. The industry would like the recorders made able to record only authorised material.

The Recording Industry Association of America (RIAA), the body that represents US record labels, mounted an unsuccessful law suit last autumn to stop the Rio from going on sale. Internet piracy is already a

serious problem for the music industry. The RIAA and other bodies fear that the availability of devices, such as the Rio, will encourage even more consumers to download pirated music.

Since the RIAA lost its case, a number of other electronics manufacturers have revealed plans for similar products. The Yapp, a credit card-sized device, will be launched this summer by Samsung of South Korea. Creative, a Singapore-based company, plans to introduce the Nomad, which will be the same size as a cigarette packet and will retail for less than \$300.

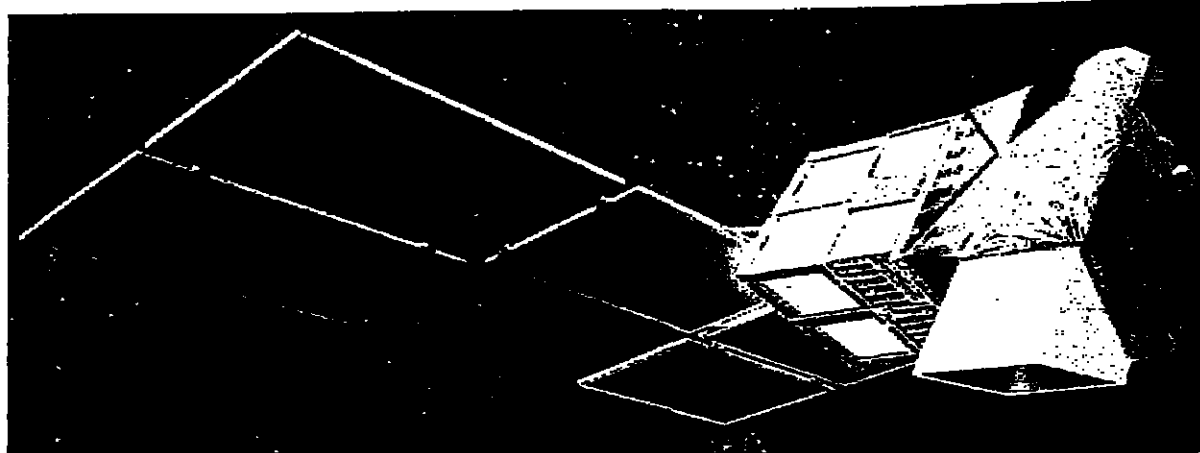
Having accepted it cannot stop such devices, the music industry is trying to ensure they cannot be used to breach copyright.

The Secure Digital Music Initiative (SDMI), an alliance

of RIAA members and technology companies, has set up a group to map out guidelines whereby the software specifications of portable devices will be tailored to prevent them recording and replaying unauthorised material.

At present, most of the songs posted on the internet are illicit versions of copyrighted material by popular acts, such as Lauryn Hill or Robbie Williams. However, more authorised material will become available online when the record companies launch their own internet sales systems this autumn.

The SDMI working group, chaired by Jack Lacy, an executive with AT&T's a2bmusic subsidiary, with representatives of Sony Music and Matsushita, hopes to have agreed the guidelines by the end of June.



Matra Marconi's Helios 1 military observation satellite. Europeans stand a chance despite Japan's desire to award work locally

European satellite companies circle over lucrative Japanese surveillance project

Michio Nakamoto on the contest for a \$1.6bn contract

A group of western businessmen gathered at the Liberal Democratic party's headquarters in Tokyo one day last month. Representing Europe's leading aerospace companies, they had come to market satellite technology to Japan's ruling LDP and government officials. At stake is a ¥200bn (\$1.6bn) programme to launch four surveillance satellites in 2002.

For Aerospaciale, Matra Marconi Space, Alcatel Space, DaimlerChrysler Aerospace and Thomson CSF, all represented that day, the meeting was a crucial opportunity to press the case for European participation in what could be a lucrative business.

But it will not be easy. The government, which has allocated initial development funds in its 1998 supplementary budget, is hoping to rely on domestic technology to develop and build the satellites.

"This is a problem that has to do with Japan's security, so basically we plan to develop and produce the satellites ourselves," says one official.

The National Space Development Agency of Japan (NASDA), which has guided Japan's national space development effort, has launched a number of its own satel-

lites and already had a plan in place to launch its Advanced Land Observing Satellite (Alos) in 2002. This development work is expected to form the basis for the new satellites.

Amid the general economic gloom, domestic companies such as NEC and Mitsubishi Electric will be desperate to claim a share of new business from a client that has a reputation for offering attractive margins.

But Japan's limited experience in the satellite business, the tight schedule the government faces and cost considerations provide an opportunity for foreign companies with proven expertise.

The plan to launch four satellites was put together hastily last year amid the panic after North Korea launched a rocket over Japanese territory. The Japanese government was embarrassed by its dependence on US military intelligence and clear lack of viable options in case of a missile attack.

The government decided to strengthen its intelligence capabilities by launching the satellites as soon as possible. Since Japan is committed to the "peaceful" use of space, the satellites are to be used for commercial and scientific purposes as well as for military surveillance.

However, if Japan is to keep to its schedule of launching the satellites in 2002, it will almost certainly have to rely on more than

home-grown technology. "It is possible for Japan to develop the satellites but there are questions of cost and delivery, which will put foreign companies at an advantage," admits a government official.

It takes four years to build a satellite from an existing design and although Nasda has started work on the Alos, there is no guarantee it will be ready by 2002.

Furthermore, it would be "cost effective to rely on some already developed equipment" and would make for a more reliable programme "to have experienced contractors on board," says Matra Marconi Space, a prime contractor for the Helios satellites, which claims to be "the leading non-US company in earth observation."

More crucially perhaps, there is little guarantee that a Japanese-made satellite could perform the surveillance functions Japan wants.

It wants the satellite to carry a sensor that is able to observe objects on earth as small as 1 metre. There are few companies able to provide that kind of resolution.

Nasda is developing a sensor with 2.5-metre resolution, but this is only planned for completion in 2003. Lockheed Martin, the US company, is launching Ikonos, a commercial satellite with a resolution of 10cm, next month.

S Korea adjusts steel prices

By John Burton in Seoul

South Korea's Pohang Iron & Steel (Posco) yesterday said it still planned to offer discounts to domestic consumers who buy large volumes of steel, despite a decision to end subsidised prices for local buyers.

Posco, the world's second largest steelmaker, will abolish its dual-pricing policy, under which it supplied steel to export manufacturers at rates lower than those offered to foreign buyers, because of a threatened trade dispute with the US.

Analysts said the move had also been expected because the privatisation of this year of state-run Posco would allow it to improve earnings by charging market prices to domestic consumers. Posco reported a record profit in 1998 because of higher overseas sales.

The system of subsidised prices was introduced in the 1970s to boost export competitiveness by offering manufacturers lower prices for steel, petrochemical and textile materials. Posco supplies about 75 per cent of domestic steel demand.

The reduced steel prices were largely based on raw material costs, without taking into consideration foreign exchange rates and overseas steel prices.

US steelmakers have complained the dual-pricing system violates World Trade Organisation rules on subsidies. Robert Fisher, the US deputy trade representative, told officials in Seoul last week that Washington was concerned the dual-pricing system was causing a sharp rise in steel exports to the US. He said Korean steel exports to the US rose 27 per cent in January from December, while steel shipments from Japan, Russia and Brazil fell. Han Duck-soo, South Korea's minister of state for trade, said exports to the US were expected to fall this year as demand elsewhere rose.

INTERNATIONAL

UK presses Sierra Leone peace initiative

By Quentin Peel in Abuja

The British government yesterday urged the democratically elected president of Sierra Leone to sue for peace with the rebel forces that have terrorised the impoverished West African state for the past five years.

Britain is offering the services of its frigate HMS Westminster, currently stationed off Freetown, the Sierra Leonean capital, to

provide humanitarian assistance in the ongoing civil war, as a potential location for peace talks.

The initiative was launched yesterday at talks between Robin Cook, the UK foreign secretary, Ahmad Tejan Kabbah, the president of Sierra Leone, and Abdul Rahman Abubakar, the Nigerian president in Abuja. It came as a detained rebel leader in Freetown, Foday Sankoh, called for a truce

between his Revolutionary United Front and the Nigerian-led West African peacekeeping forces.

Yesterday's talks in Nigeria were intended to step up the pressure on Mr Kabbah to negotiate with the rebels, in spite of the brutality with which they have waged the war and the lack of any clear leadership in the field. At the same time, both Britain and Nigeria insist they are maintaining

their support for the elected government in Sierra Leone. The chaos in that country, whose only source of wealth is its diamond mines, currently controlled by the rebel forces, has become a headache both for the UK, as the former colonial power and principal aid donor, and for Nigeria whose troops have been keeping Mr Kabbah in power.

The war is costing Nigeria about \$1m a day, when the country is in deep economic crisis and unable to service its \$38bn external debt. Nigeria has also lost up to 1,000 soldiers in the conflict. Olusegun Obasanjo, newly elected to take over as civilian head of state from Gen Abubakar, wants to pull out of Ecomog, the West African peacekeeping force, to which Nigeria has contributed most of the troops. The present Nigerian government wants Britain to get more

international support.

Sierra Leone has also proved a political nightmare for Mr Cook, because of the involvement of the British company Sandline in breaking a UN arms embargo to support the Kabbah government, allegedly with the knowledge of UK government officials.

The Foreign Office was sharply criticised by a parliamentary committee for its involvement.

Unscrambling the scramble for Africa

A century ago European nations were competing to carve up Africa, establishing spheres of influence that last to this day. But now the familiar pattern is starting to unravel, writes Mark Turner

When France and Britain met in St Malo last December and launched a joint approach to Africa, many observers doubted that more than a century of competition for economic and political influence could suddenly be replaced by co-operation.

Yet this week Robin Cook, the British foreign secretary, and Hubert Védrine, the French foreign minister, are paying the first joint visit to Ghana and the Ivory Coast. In Abidjan, French and British ambassadors to Africa will discuss how to put into practice the St Malo call for policy harmonisation, information exchange and even joint representation where only one partner boasts an outpost.

The new message has yet to get through to everyone. Businessmen and diplomats from both sides of the divide in Africa remain as joyfully suspicious of each other as ever, and take an almost childish glee in each other's difficulties.

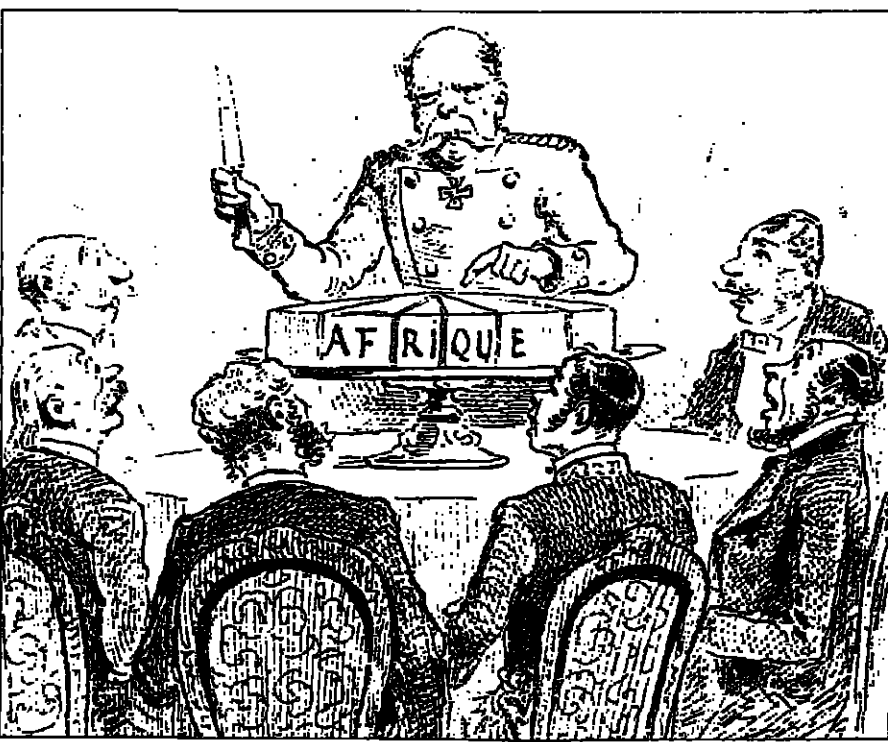
This is well demonstrated by the underlying sense of competition which has characterised recent inroads by France into Kenya, the heart of British influence in East Africa, and a parallel British

push into the Ivory Coast. The newly revamped Maison Française in Nairobi – a temple to Parisian chic – is an eloquently high-profile testament to France's push for more influence in East Africa, and is home to large new regional development and research centres.

"We are promoting a real image of contemporary France," says Mehdi Drissi, the centre's energetic director. "We promote our culture through plays, singers, university exchanges. The Alliance Française (language school) here has 5,000 students, making it second worldwide; only New York is ahead."

President Jacques Chirac underlined his country's move beyond traditional boundaries in no uncertain terms when nearly all Anglophone African leaders attended the recent France-Africa summit. France claims that although its commitment to French Africa is as great as ever, it wants to move away from its old concept of the "backyard" and take a more holistic view of the continent.

Half a continent away, the British are making a less colourful but equally vigorous push into the Ivory Coast,



The carve-up: A French caricature of the German chancellor Bismarck dividing Africa like a cake at the Berlin congress of 1885. Now Britain and France are nibbling the other's portions

West Africa's most vibrant economy. The UK last year was the country's second largest investor, after France, with companies from British Airways and Framlington to Crocodile Machetes moving in over the past few years, and has been raising its profile with trade missions and fairs.

"We want to get away from the idea that somehow there are countries that are outside our interests in West Africa," said Tony Lloyd, the Foreign Office's minister for Africa, on a recent trip to the country.

At the heart of each country's efforts is a recognition that they could be missing

out on some big commercial opportunities on the other's patch. France and Britain (to a lesser extent) continue to dominate trade relations with their former colonies, but are making inroads across the divide. In Kenya, exports from both countries have risen considerably over the past five years, with the UK up almost 80 per cent and France up 40 per cent from 1993 to 1997. In the Ivory Coast British exports almost doubled over the same period; albeit from a much lower relative base, while French exports rose by a little over 30 per cent.

The St Malo meeting, however, appears to mark a recognition by both governments that a new scramble for Africa would both be damaging and difficult – especially at a time when the US is making increasing inroads into the continent, and new competition emerges from East Asia and South Africa.

The question is why they are taking a bilateral rather than an European approach, when the EU is becoming more assertive in commerce and politics.

The answer seems to lie in the hands of technocrats who are suspicious of sharing influence with countries with little or no history on the continent, and which

hope to capitalise on Franco-British networks to promote their own trade and development strategies.

Despite recent cutbacks, France and Britain retain substantial and privileged links to the continent and are loath to see them eroded.

Paris in particular has maintained a strong role as benevolent guardian of former colonies: by direct, although declining, military support (with bases in Djibouti and Chad), unwavering political support for Franco-

phone African leaders, and a guarantee for the currency of 14 countries in central and western Africa, the CFA franc. There are 114,000 French nationals living on the continent, French culture is dominant in West Africa, and Paris is the world's largest contributor of aid to Africa, devoting FF18.7bn (£2.85bn, \$3.1bn) in 1997.

Britain also boasts almost 140,000 nationals in Africa, gave £348m (\$560m) in aid from 1996-7, and has improved its ties with African members of the Commonwealth considerably since the days of dispute over how to end apartheid in South Africa. Educational links are strong, and the UK maintains a small military force in Kenya, backed by regular exercises.

NEWS DIGEST

PRESSURE ON KINGDOM'S CURRENCY

Saudi Arabia 'in fresh move to support riyal'

The Saudi Arabian Monetary Agency (Sama) is believed to have intervened this week to support the riyal, the second such move in two weeks. Saudi Arabia's economic problems in a climate of low oil prices have led to pressure on the riyal, with offshore hedge funds short-selling the currency in the hope that the government will devalue. Sama, the kingdom's equivalent of the central bank, first intervened with an estimated \$1bn to support the riyal in the summer following the Russian crisis. Intervention about 10 days ago is believed to have been for several hundred million dollars.

According to bankers, most of the short-selling continues to come from hedge funds, although some local companies are hedging against a devaluation. One banker explained that the pressure could ease if the central bank explained that it had enough instruments to support the currency. Saudi Arabia has about \$60bn in foreign assets. Available statistics show that foreign exchange reserves total only about \$7bn, although Sama may not have published their full extent. Roula Khalaf, London

INTERNATIONAL TERRORISM

Iran's stance wins praise

Lamberto Dini, Italy's foreign minister, yesterday said there had been a significant reduction in Tehran's support for international terrorism. At the start of the visit to Rome by Iran's President Mohammad Khatami, the first to the west by an Iranian leader in 20 years, Mr Dini said there had been "a strong reduction" by Iran in the financing of terrorist activity in the world. Mr Dini suggested that the change had been brought about because of the reformist course led by Mr Khatami himself.

Mr Khatami yesterday met Oscar Luigi Scalfaro, Italy's head of state, at the Quirinale palace and held talks with senior Italian figures.

Mr Dini said that the Iranian president's visit, which is being undertaken amid very tight security, was being watched "with great interest" in the US, which is still maintaining sanctions on Tehran. James Blitz, Rome

KIO'S MISSING MILLIONS

Grupo Torras money traced

About \$100m allegedly misappropriated from Grupo Torras, the Spanish subsidiary of the Kuwaiti Investment Office, has been traced to personal trusts in the Bahamas set up by Sheikh Fahad Mohammed al Sabah, the former chairman of the KIO, according to new evidence revealed during the London legal action over the company's collapse in 1992.

Lawyers acting for Grupo Torras discovered in December that more than \$100m of the \$450m misappropriated in total had been paid into a Swiss bank account in the name of Sheikh Fahad. This money has now been traced through New York banks to the Bahamian trust funds and frozen.

The legal action against Sheikh Fahad and other former members of the Grupo Torras senior management has now ended. Judgment is not expected for several months. John Mason, Law Courts Correspondent, London

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THE AMERICAS

LOAN AGREEMENT AMBITIOUS POLICY COMMITMENTS HAVE BEEN MADE FOR LATIN AMERICA'S BIGGEST ECONOMY

High stakes for Brazil in IMF deal

By Geoff Dyer in São Paulo

Brazil is no stranger to the ways of the International Monetary Fund. Fourteen loans from the Fund in 40 years bear testament to the country's elusive search for economic stability.

But few of those accords have been as ambitious in policy commitments as the letter of intent the Brazilian government signed on Monday. Few have been as important for Latin America's biggest economy, which has seen its currency lose nearly 40 per cent of its value so far this year.

The stakes are high. If the new policy framework works, Brazil will steer clear of the inflation which once ravaged its economy, and lay the groundwork for high growth in the future.

Brazil's neighbours will sigh with relief and the IMF, assailed over its policies in Asia and Russia and for failing to prevent the January devaluation in Brazil, will be able to notch up a much-needed victory.

But if the new agreement does not quickly restore confidence in Brazil, the effects could be catastrophic.

At the least, the efforts needed to weed inflation out of the economy would require a prolonged recession. The worst-case scenario would bring a combination of galloping inflation and a default

on domestic debt.

After a conventional IMF approach to economic stabilisation, the new agreement sets two clear objectives:

■ First, to limit the inflationary impact from the devaluation, in the short term the government aims to use tight monetary policy and IMF money to intervene in the currency market.

■ Second, to prevent the ratio of debt to gross domestic product from exploding, the government will try to engineer substantial budget surpluses (before interest) in each of the next three years.

The price of these goals will be a steep recession, a decline in GDP of 3.5-4 per cent, according to official estimates. Yet, they have won the support of many economists because of what they see as the absence of other options. "There is no alternative," says Mauro Schneider, economist at ING Barings in São Paulo.

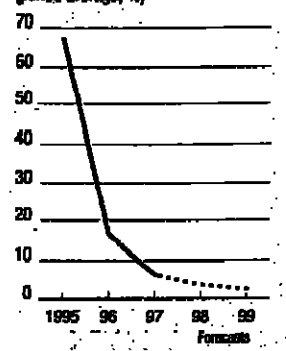
The obstacles facing the new plan are considerable. For a start, the two goals of the strategy are contradictory: high interest rates to subdue inflation aggravates the fiscal problem by increasing the debt burden and reducing tax revenues.

The government is well aware of the need to bring down interest rates, both real and nominal, as soon as possible.

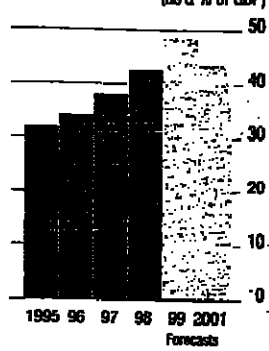
Brazil's new floating exchange rate regime also

Brazilian economy
Brazilian real against the dollar
(R\$ per US\$)

Source: Datastream/ICI, Goldman Sachs

Inflation (CPI, Fipe)
(period average, %)

Source: Fipe

Public sector debt
(as a % of GDP)

Source: Fipe



Arminio Fraga: admission

faced a number of technical hurdles. Having abandoned its exchange rate peg, the government says it will now establish an inflation target as the new anchor for policy.

Yet one of the by-products of Brazil's inflationary history is a vast array of price indices, each one explaining a different aspect of economic behaviour.

In February, the Fipe consumer price index recorded inflation of 1.4 per cent, while the IGP-M index said prices had risen by 3.6 per cent in the same period.

Both measures are respected and closely watched. Which one to choose as a target? The central bank's new team of technocrats is still trying to resolve this question.

But the biggest challenge for the new plan is political. Last year Brazil's politicians

were asked to accept budget cuts and high interest rates to prevent a devaluation.

Now that the currency has been allowed to float, the politicians are being urged to back new budget savings and, for the time being, even higher interest rates.

Arminio Fraga, the new president of the central bank, admitted that the revised fiscal adjustment being asked of Brazil was "enormous".

All this during a year when the economy is expected to face one of the worst recessions on record. Few democratic political systems would withstand such pressure, even if they did not have Brazil's weak political parties and history of populist posturing.

Yet Brazil's record of breaking past accords means that, in the Darwinian world of today's financial markets, it will be awarded few concessions.

"Mexico and Argentina have actually proved that they can tolerate the pain of such an adjustment when required," says Walter Molano, economist at BCP

Securities in the US. "Brazil has not yet demonstrated that ability."

Given the recessionary impact of the new programme, the IMF's critics have been quick to say it will not work.

According to Jeffrey Sachs, the Harvard economics professor, the combination of budget cuts and high interest rates in an already declining economy could be "disastrous". "Being with the IMF is worse than being without it," he told a Brazilian television channel last week.

The plan's only hope of political survival is that the fear of rampant inflation, which reached 2,700 per cent in 1993, will ensure continued political support for the government, despite the inevitable slump in its poll ratings.

This case was powerfully made on Monday by Gustavo Franco, who having resigned as central bank president at the start of the currency crisis, was formally handing over to his successor.

"Inflation is a type of state violence against the citizen," he told the audience. "The restoration of the currency [in 1994] was a remission with a future that we thought we had lost."

Mr Franco may be blamed by many for Brazil's present ills. But these rousing words did win him a standing ovation.

IMF reforms have 'met Congress demands'

By Nancy Dunne in Washington

US officials told a Senate banking subcommittee yesterday that the International Monetary Fund had made important reforms "broadly consistent" with those demanded by Congress when it approved a \$17.5bn infusion of funds last year.

If Congress is displeased with IMF policy, it should direct its concerns to Robert Rubin, the Treasury secretary, and his deputy Larry Summers, said Gerald O'Driscoll of the conserva-

tive Heritage Foundation, which has opposed the Fund. "The US Treasury department exercises influence over the IMF policy far in excess of the explicit percentage vote possessed by the US," he said. "IMF policy does not and will not deviate in any important or fundamental way from the policy of the US Treasury."

He said IMF policies usually generated a nationalist and populist backlash. These set in motion "a political dynamic which makes it difficult to pronounce confi-

dently that the participation of the IMF in the domestic reform process is helpful".

This explained why the IMF must frequently revise its initial conditions. "IMF conditionality first brings economic pain and then political reaction. Political reaction slows reform, which leads the IMF to revise its conditions so as to conform to political reality in the debtor country."

Timothy Geithner, Treasury undersecretary for international affairs, said the IMF, on US urging, had

become "a more transparent and accountable institution", releasing many of the main documents on IMF programmes as well as policy papers and information on the Fund's financial position.

However, before he arrived to testify, the banking subcommittee met four IMF officials behind closed doors.

Commenting on the problems of Asian economies, Mr Geithner said South Korea had undertaken a wide range of policy measures to liberalise its trade and

investment regimes. Among these were a reduction of tariffs, elimination of export subsidies and simplification and harmonisation of import certification procedures. It had also agreed to stop directing commercial bank lending decisions.

Mr Geithner's optimism on Korean reforms was countered by Catherine Mann, a senior fellow at the Institute for International Economics.

Korea, she said, had "made relative little progress" towards reforms that would create a more market-ori-

ented economy. Institutional reforms, such as bankruptcy law and the social safety net, had affected the smaller *chaebol*, or conglomerates, the most, leaving large *chaebol* unscathed.

She said consolidation of smaller and weaker banks into large banks presents the appearance of a stronger financial sector.

"But merging the banks and using government funds to buy back bad loans, does not create a stronger institutional culture for credit discipline," she said.

Cuba seeks to put spotlight on bomb trial

By Pascal Fletcher in Havana

Cuba's communist government, which last week blocked foreign scrutiny of a trial of internal dissidents, has actively sought world attention for the trial this week of a Salvadorean facing the death penalty for allegedly planting bombs in Havana that killed an Italian tourist.

On March 1, foreign diplomats and journalists were

unceremoniously ordered by police to stay far away from the cramped courtroom in west Havana where four leading opponents of the government were tried on "sedition" charges in a one-day closed hearing.

On Monday a week later, Havana's foreign press corps were invited to attend a spectacular court especially set up in a fortress built by the Spanish in colonial times, to cover the start of the trial of

a 27-year-old Salvadorean bodyguard and former military cadet accused of "terrorism".

Cuban television showed long extracts from the trial, including a carefully scripted declaration of repentance and plea for mercy from Raúl Ernesto Cruz León, the accused.

In the dissidents' trial only the prosecution case was made public inside Cuba. The accused were subjected

to an official campaign of vilification branding them as US-backed "traitors" and "mercenaries". They had criticised aspects of Cuba's one-party political system and called for a boycott of elections. They face jail terms of up to six years and are still awaiting sentencing.

President Fidel Castro has repeatedly held up the case of the Salvadorean as evidence that the communist-ruled island continues to be

the target of "terrorist" attacks launched by anti-Castro Cuban exile groups based in the US.

"The difference is clear. Last week's secretive trial involved internal questioning of the Cuban government and the Revolution. This week's public one is the David and Goliath scenario, Cuba as the victim of US-sponsored terrorism," said one Havana-based foreign diplomat.

Mr Cruz has admitted he was recruited and paid El Salvador to plant bombs in five tourist hotels and a restaurant in Cuba in July and September of 1997. In these blasts, an Italian visitor was killed and 11 other people were injured.

Mr Cruz, who faces a Cuban firing squad if sentenced to death, said he had acted purely out of economic motives because he needed money to pay off debts.

Ecuador crisis grows as banks stay closed

By Justine Newsome in Quito and Richard Lapper in London

Ecuador's political and economic crisis deepened yesterday when the government closed the country's banks for a second successive day and labour unions called a general strike.

The compulsory bank holiday follows a sharp fall in bank deposits in recent weeks. Jorge Egas, bank superintendent, announced the move late on Monday, and said it was to "preserve the stability of bank reserves, limit the withdrawals that could affect the domestic financial system, and avoid pressure on the currency and the continued rise in prices". The domestic foreign exchange market was also closed.

The government is scheduled to announce economic measures tomorrow.

Devaluation of the currency, the sucre, has added to the troubles of the banking system as many Ecuadorians borrowed dollars to buy cars and domestic appliances and have seen the cost of repayments rise sharply.

Mr Egas said the banking move was taken to allow the launch this week of economic measures aimed at stabilising the financial system and fostering growth. However, it was criticised by bankers.

"Confidence has been seriously weakened by the closure. The government has lost control of the country," said Carlos Larreategui, president of the private banks' association.

Cuts in public sector redundancy payments and a build-up of wage arrears

have been the rallying point for a general strike called for today and tomorrow by labour unions.

Bus drivers, who agreed late on Monday to support the strike, have been hit hard by the devaluation and called on the government to freeze the sucre value of dollar-denominated loans taken out to buy buses.

The government has threatened to send troops to run electricity plants and oil installations. Strikes which paralyse basic services were outlawed last year in constitutional reforms.

Meanwhile, fears are growing in international markets that Ecuador may be forced to default on its external debt.

In London, Ecuador's Brady bonds rose in early trading but are still trading at average yields of more than 30 per cent.

The price index fell by nearly 8 per cent on Monday. "The implied risk of default has increased substantially," said Peter West, chief Latin American economist at Banco Bilbao Vizcaya, the Spanish bank. "The whole macro-economic situation is dire and the financial system is in extreme difficulty and so one should not underestimate the risk."

If Ecuador were to default on its Brady bonds it would be the first country to do so since more than a dozen debtors restructured bad commercial debt in the early 1990s.

Ecuador has the worst debt indicators in Latin America, with a debt to gross domestic product ratio of 82 per cent.

Productivity of US workers up

The productivity of US workers soared in late 1998 at the fastest rate in six years, the government said yesterday, Reuters reports from Washington.

Productivity, measuring the amount of goods and services that workers produce per hour, grew by 4.6 per cent in the quarter ended in December, the Labour Department said. It revised upwards its previous estimate, which had pegged fourth-quarter productivity growth at 3.7 per cent.

The latest figures for non-farm productivity showed it recording its biggest gain since a 6.2 per cent increase in the fourth quarter of 1992. The revision incorporates

data recently released by the Commerce Department showing that the gross domestic product of the US economy boomed at a 6.1 per cent rate late last year.

Together, the GDP and productivity reports show an economy moving forward at full speed but with a lack of inflationary pressures. Consistent with that picture, unit-labour costs fell 1.1 per cent in the fourth quarter, the department said.

Economists in a Reuters survey had expected fourth-quarter 1998 productivity to be revised to a 4.2 per cent gain. Unit-labour costs had been expected to decline by 0.8 per cent.

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ASIA-PACIFIC

State spending boosts Chinese output

By James Kyng in Beijing

China's industrial production grew by 10.6 per cent in the first two months of this year, mainly because of increased state spending on infrastructure, it announced yesterday.

But this robust performance masked severe budgetary constraints, which may limit China's ability to continue Keynesian fiscal spending to drive economic growth.

The revised 8 per cent year-on-year rise in industrial output for January was an indication that February's figure exceeded 10 per cent, the official Xinhua news agency said. Industrial output in all of 1998 rose 8.9 per cent.

Economists said the climb in industrial production should not be taken as a signal that China's economic slowdown was over. In fact, the worst was yet to come, said senior Chinese officials.

Most of the output has been generated by spending stimulated by a RMB100bn (\$12bn) infrastructure bond issue last year, some RMB88bn of which remains to be spent this year. But this amount is too small to have more than a marginal and short-lived locomotive effect on industry. For example, the value of infrastructure production in the first two months was RMB280bn, greater than the entire bond issue.

China may also be reluctant to issue more large infrastructure bond tranches this year because the cost of servicing existing domestic and foreign debts is already too high - at RMB235bn compared with total central budget revenues of RMB548.3bn in 1998.

Nevertheless, plans for rolling out infrastructure appear to be going ahead. China's railways ministry plans to issue RMB3.4bn in three-year bonds to fund

railway construction projects. The People's Bank of China, or central bank, announced a surprise rise in interest rates on US and Hong Kong dollar deposits yesterday. The rate for one-year US dollar deposits rose to 4.475 per cent from 3.750 per cent. The move may have been aimed at curbing capital flight from China by raising the attractiveness of deposits in domestic banks, observers said. But the risk

is that China would try to change their renminbi into US dollars, thereby applying downward pressure on the local unit. China's National People's Congress, or parliament, yesterday adopted amendments which elevate the official standing of private enterprise. The changes describe private business as an "important component" of the formerly communist economy rather than merely an appendage.

India to halve international telephone rates

By Mark Nicholson in New Delhi

India's telecoms regulator yesterday announced sweeping cuts in most telephone rates, including the halving of international call prices within three years, in the sector's most comprehensive overhaul of tariffs.

In a phased three-year "rebalancing" of virtually all existing telecoms tariffs and rental rates, the two-year-old Telecom Regulatory Authority conservatively estimated that the cuts and revisions would boost call volumes in India by 10 per cent within a year and increase overall sector revenues.

Among the main changes, which will begin to take effect from April 1, the regulator said long-distance tariffs would fall by around 45 per cent over three years, and international tariffs by 50 per cent over the period.

Local call charge rates were revised, rather than simply increased, from a range of Rs0.8-Rs1.20 (2-3 cents) to Rs0.6-Rs1.4, while rental charges on fixed lines will rise on average from Rs75-Rs190 a month to Rs120-Rs250 (\$2.52-\$5.88). Cellphone tariffs were also sharply cut, while rental charges increased to Rs600 a month from the current Rs156.

The net effect of the revisions will be to cut overall charges for heavy telephone users while modestly increasing overall costs for average urban users. This will sharply reverse the current position, which effectively taxes heavy telephone users in India.

Rural users, and those who make fewer than 500 calls a month, together making up 70 per cent of telephone users, will end up paying less than the average.

The regulatory authority said in a statement that the tariff revisions were only a first step in reforming the sector's overall pricing.

The aim was to offer a "transparent framework" for tariff determination, to improve consumer choices and flexibility to service providers - which since 1994 include private companies - and to move Indian prices in line with international norms.

It promised to review the results of the reforms after a year, and adjust if necessary. The tariff reforms will also directly affect VSNL, the publicly quoted but state-owned monopoly provider of international telecoms, along with MTNL, another quoted public operator which provides global line services in Bombay and Delhi.

India's cross-border power deal reaches final hurdle

By Mark Nicholson in New Delhi

An unprecedented deal between India and Pakistan for the cross-border sale of electricity needs only final agreement on tariffs, according to Indian officials, who claim otherwise "the deal is done".

The agreement would mark a milestone in improved relations between South Asia's newly nuclear rivals after the pomp and rhetoric of last month's prime ministerial summit in Lahore. It may also signal a tentative but noteworthy shift in Pakistan's diplomatic approach towards its neighbour.

A third round of bilateral talks on the proposed sale of 300MW of Pakistani power to India are expected to resume later this month. These will cover pricing and payment details, according to officials, who say most technical issues involved in linking the two countries' power grids were resolved in earlier rounds.

Indian officials also say that the "political atmosphere is favourable" for an agreement, following the recent thaw in bilateral relations between the traditionally chilly rivals, which culminated in last month's prime ministerial summit in Lahore.

Prospects for the power deal - and perhaps other future steps towards closer



Nawaz Sharif (right) and Atal Bihari Vajpayee at the Lahore summit: power deals add flesh to gestures of rapprochement

bilateral relations - have been improved by a politically delicate shift in Pakistani policy towards India.

Islamabad is now apparently prepared to allow some progress on a series of modest bilateral initiatives, such as power and the establishment of the Delhi-Lahore bus link celebrated at the Lahore summit, without insisting that such moves be directly linked to progress on the intractable issue of Jammu and Kashmir. Islamabad consistently insists that this is the "core" bilateral issue.

Successive Pakistani governments refused to countenance more modest moves to improve relations unless there was at least simultaneous progress on Kashmir. Pakistani officials appear

to have edged closer to India's equally long-stated position, that addressing the deep-rooted dispute over Kashmir may prove more manageable after earlier moves designed to improve trust between the two sides.

"If we deal with these issues, the Kashmir issue is easier to deal with - they are to improve the atmosphere to deal with the last issue," Sartaj Aziz, Pakistan's foreign minister, said in the margins of the recent Lahore summit. His views have been echoed privately by other senior Pakistani officials.

A power deal may prove early fruit of this tentative rapprochement. In earlier talks, the two sides resolved the problem of linking Pakistan's power grid with

NEWS DIGEST

PREPARATIONS FOR REFERENDUM

Proposals for a republic are unveiled in Canberra

An Australian president would be chosen by the prime minister from public nominations under draft legislation unveiled yesterday on the proposed transition to a republic.

The president would be head of state and all references in the constitution to the British Queen, the current head of state, would be removed if November's national referendum approves the move to a republic.

Under the draft legislation, a president would need approval by two-thirds of the combined parliament. The president would serve a five-year term and could be sacked by the prime minister if parliament approved the dismissal within 30 days.

The referendum will involve two separate ballot papers. To succeed, a referendum requires a national majority and a majority in four states: Gwen Robinson, Sydney

PRESSURE ON PARLIAMENT

Thailand pursues reform drive

Thailand's cabinet yesterday resolved to extend indefinitely the current parliamentary session, due to end on March 22, in order to push through long delayed economic, legal and political reforms.

The decision came after a committee of the country's appointed Senate made significant changes to a crucial bankruptcy bill that are unacceptable to the government and the International Monetary Fund. The full Senate will meet on Friday to ratify the changes. If they do so, the bill and other legal changes could be delayed by up to six months before the government can pass its own version.

The extension of the parliamentary session puts pressure on senators to follow the government's original bankruptcy bill and gives the government time to work with the Senate to reach mutually acceptable modifications of other legal changes dealing with foreclosure and land leases.

The next ordinary session of parliament is scheduled to begin in late June. Delay of the key legislation until that time could jeopardise further disbursement of funds from the IMF and World Bank. Ted Bardecke, Bangkok

INDIAN ECONOMY

Growth forecast 'optimistic'

India's economy will post slower growth this fiscal year than the officially estimated GDP growth rate of 5.8 per cent, according to a leading independent think tank, which calls the government's early estimates of agricultural output "optimistic".

The Centre for Monitoring Indian Economy, the Bombay-based economics research agency, estimated growth this fiscal year, ending this month, at closer to 4.5 per cent. It bases its lower assessment on likely agricultural production growth of 1.5 per cent, against the government's estimate of 5.3 per cent.

The agency pointed out that grain production had grown only 1.5 per cent this year, meaning other farm products would have to rise in output by over 10 per cent to justify government figures. Growth in non-foodgrains sectors, it said, had averaged no more than 5 per cent throughout this decade. Mark Nicholson, New Delhi

HK AND BEIJING DEALS GATES ALLIES WITH HK TELECOM AND CHINESE GOVERNMENT

Microsoft to put Beijing online

By Rahul Jacob in Hong Kong and Louise Kahoe in San Francisco

Microsoft, the world's largest software company, will today announce a partnership with China Telecom and the Chinese government's State Economic and Trade Commission, in a project that involves linking government ministries to the internet.

Bill Gates, Microsoft chairman, who is due to sign the deal today in Shenzhen, said the project was an important milestone in the construction of China's information infrastructure.

More than 40 government ministries are involved in

the project, which is designed to promote a new "service orientation" by the ministries. Microsoft said.

As part of the partnership, Microsoft will donate a wide variety of software as well as technical support and consulting services.

Earlier, Mr Gates spoke in Hong Kong, where he announced an on-line services alliance with Hong Kong Telecom the territory's dominant telephone service. The deal will allow computer users to rent software on a one-off basis, download films and play interactive video games. "What we've got here is the internet in a more powerful form than 99 per cent of the computer

users in the world have access to," said Mr Gates.

In the race to position itself for the convergence of the PC and TV, Microsoft has been buying stakes in cable companies in the US. Yesterday's deal allows it to combine with Hong Kong Telecom to deliver high-speed broadband services of Hong Kong's state-of-the-art telephone network. In March 1998, Hong Kong became the first city in the world to deliver fully interactive TV, including home shopping and video on demand.

Analysts said the deal offered Microsoft a high density population laboratory to test new applications and

also gave Hong Kong Telecom's interactive multimedia service a range of new functions. "Microsoft is excited to expedite the convergence of PC, TV and telecommunications technologies with Hong Kong Telecom," said Mr Gates.

Hong Kong Telecom said the new services could be used, for example, by students to access lectures and would enable businesses to train-on-demand using the PC. "What Microsoft is getting is someone to act as a 'betasite' for services it is testing from a technological and consumer standpoint," said Lloyd Fisher, Salomon Smith Barney telecom analyst.

South Korea looks to smaller businesses to lift it from recession and create jobs

John Burton reports the conglomerates, once the engine of the economy, have been replaced in favour by more specialist groups

The chairman of South Korea's big conglomerates, or *chaebol*, were once the honoured guests at the Blue House, the presidential mansion. Now it is the turn of small business.

At one recent gathering, President Kim Dae-jung was host to the world's leading makers of tents, motorcycle helmets and nail clippers. "We want to encourage the growth of small business by recognising small Korean companies that are already global leaders," said a presidential aide.

The government aims to encourage competitive niche players in a nation where big was considered beautiful until last year's economic crisis, when the *chaebol* were blamed for poor investment decisions. A more balanced industrial structure would reduce the *chaebol's* overwhelming market and financial dominance, while promoting specialised companies with the flexibility to respond rapidly to global economic trends.

"Small business will be the salvation of the Korean economy. There are plenty of success stories and there will be a lot more if eco-

nomic restructuring succeeds," said Peter Irving, head of London-based Atlantic Investment Management, which invests in small and medium-sized listed Korean companies.

He cites the example of Medison, a medical equipment company, that has become a leading global

manufacturer of ultrasound systems. Other promising sectors for entrepreneurs include electronics and pharmaceuticals.

These industries, along with food companies, have become the favourite investments among four foreign-managed equity funds established by the government last year to pump \$1.3bn into small and medium-sized businesses.

Small companies bore the brunt of last year's financial crisis and bankruptcies among them climbed by a third to nearly 23,000. "If you were a small business, you just disappeared," said Stephen

Marvin, research head at Jardine Fleming in Seoul.

The government has quadrupled spending on the small business sector to Won4,000bn (\$3.2bn), including providing cheap loans and venture start-up capital.

The goal is to create more jobs as South Korea's unemployment rate hits nearly 9

per cent from less than 3 per cent a year ago. "Seventy per cent of the budget increase in the first half of this year is devoted to creating jobs, with the emphasis on developing small businesses," said Lee Kyu-sung, the finance minister.

Korea's 2.6m small and medium-sized companies already employ nearly 80 per cent of the nation's workforce. But critics say the government's policy does not go enough. "The missing element of corporate reform is a decisive shift in the balance between the *chaebol* and small and medium-sized

enterprises. The government keeps throwing more money at failed *chaebol* rather than small companies," said Jang Ha-sung, a professor of finance at Korea University.

Institutional barriers to the development of small businesses include the banking system. Despite recent reforms, banks still lack the credit analysis skills to evaluate small businesses and demand substantial collateral for loans. That makes it difficult for entrepreneurs to raise capital.

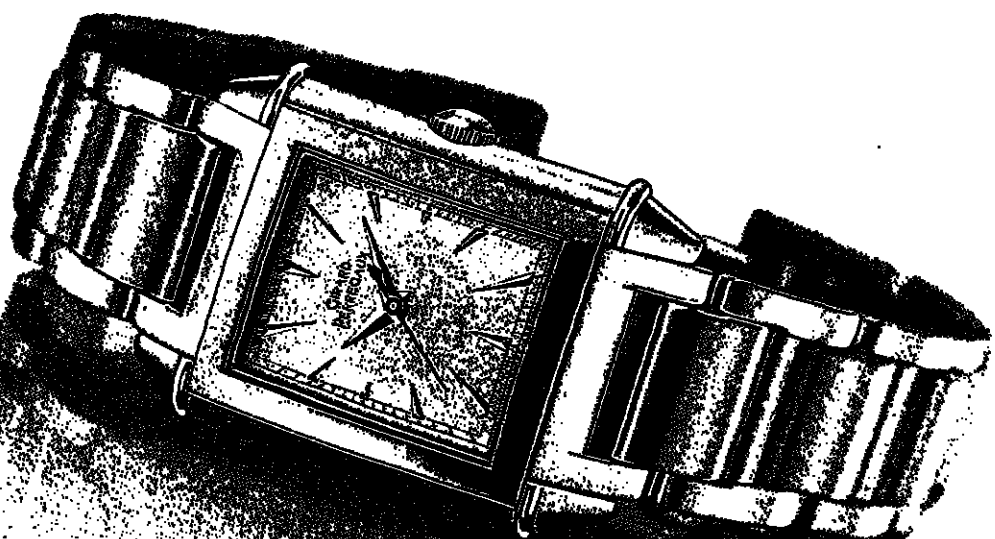
But analysts are hoping the planned takeover of Seoulbank and Korea First, two of Korea's biggest banks, by HSBG Holdings and a US financial consortium led by Newbridge Capital might change the situation.

The foreign bankers are expected to have a better ability to conduct risk assessment. "The foreign-owned banks will lead the way in lending to small businesses and I expect Korean banks will eventually follow suit," said a western diplomat.

If the banks do change their ways, the Blue House might one day host a Korean Bill Gates rather than just the world's biggest maker of nail clippers.

VINTAGE 1945

Lady



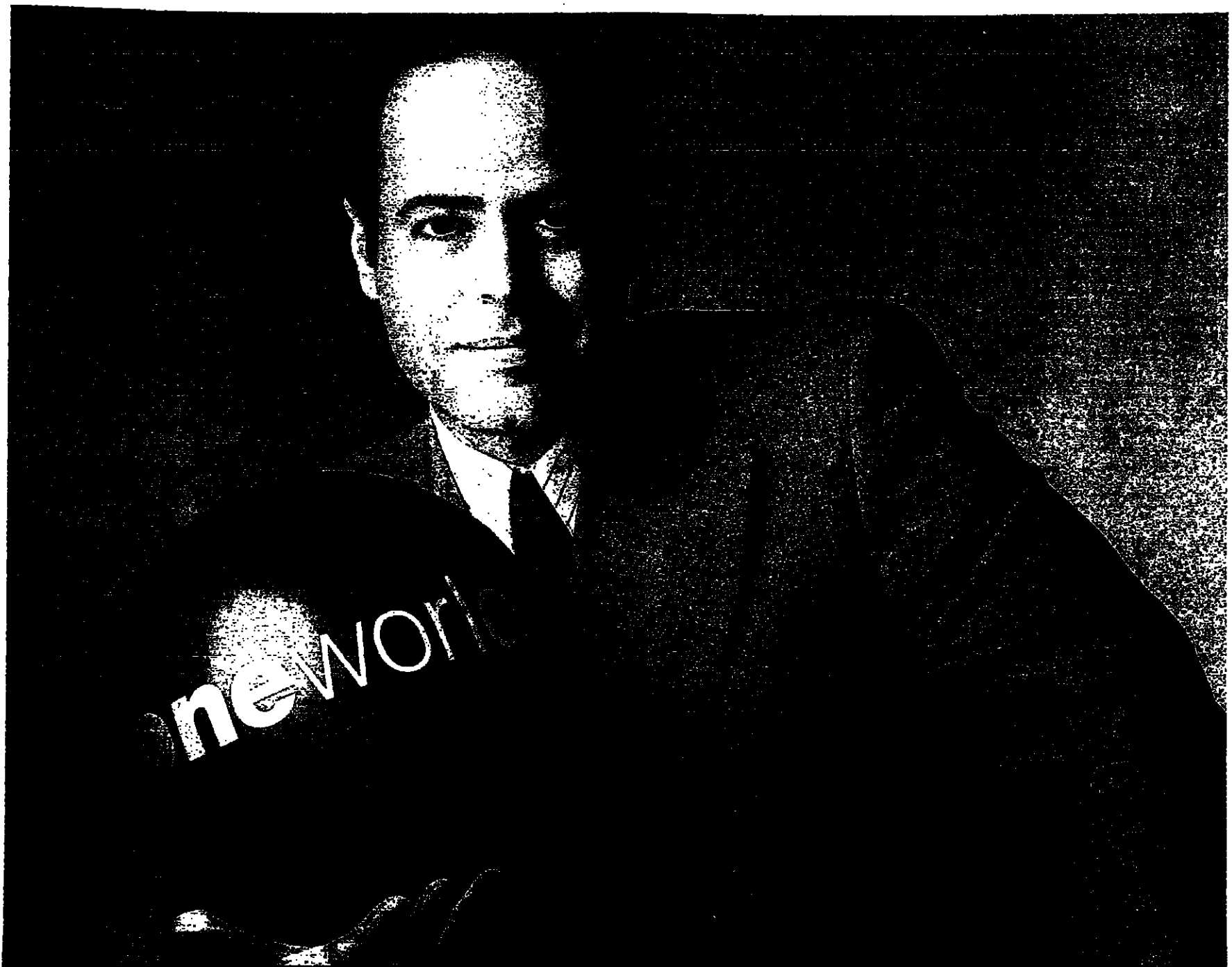
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THE BRITISH ECONOMY

Budget projections move nation closer to euro criteria

By Wolfgang Münchau,
Economics Correspondent

The economic projections in yesterday's Budget, announced in the House of Commons, have moved the UK a step closer to meeting the government's own qualifying "tests" for membership of the euro.

The Budget's central projections for economic growth

suggest the economic cycles in the UK and the euro-zone are more closely aligned than previously, as both economies are projected to go through a period of slow economic growth in 1999 followed by a pick-up in growth next year.

The government previously cited the misalignment in the economic cycles for one of the main obstacles for

UK membership of the euro. The Budget's forecast of 1999 growth of between 1 and 1.5 per cent pitches the UK at a level only slightly below recent projections for Germany. The forecast of economic growth of between 2.25-2.75 per cent in 2000 puts the UK on the same plateau as the rest of the euro-zone.

With the 1999 Budget, the UK also fulfils all but one of

the Maastricht criteria for membership of the single currency, which stipulates maximum levels of deficits, public debt, inflation and long-term interest rates, and which sets out conditions for exchange-rate stability.

Mr Brown said yesterday: "In line with our golden rule, even under our most cautious assumptions, we are balancing the current

budget over the economic cycle. And for the first time in a generation we are eliminating the current structural deficit."

The UK, however, still faces one big qualifying hurdle due to the government's refusal to enter the new exchange-rate mechanism linking the euro to the other European Union currencies. Mr Brown argues that ERM2

membership is not formally required by the Maastricht Treaty. The European Commission and other countries apply a different legal interpretation of the treaty, insisting the UK must enter the ERM2 for two years before joining the euro.

While the UK's macroeconomic performance is likely to facilitate future membership of EMU, some of yesterday's tax changes may

accentuate the differences in tax systems and structures between the UK and some other European countries.

Mr Brown yesterday hailed a new lower corporation tax rate of 30 per cent as "the lowest rate of any major country in Europe and the lowest rate of any major industrialised country anywhere."

CHANCELLOR'S SPEECH LOWEST LEVELS OF TAX IN GENERATION

'Enterprise and fairness' emphasised

By Deborah Hargreaves
in London

"A Budget for Britain to succeed in the new economy and lead in the new century," is how Gordon Brown, chancellor of the exchequer, opened yesterday's announcement of monetary and fiscal measures for the coming year.

"This is a Budget built on the central idea that our future depends on enterprise and fairness together," he said. In line with its bid to encourage enterprise and innovation along with family life, the government has slashed business and personal taxes to the lowest levels in a generation.

The Budget heralded a shake-up in competition policy, new measures to encourage small businesses and tax breaks for entrepreneurs. "Britain must make a quantum leap in skills, innovation, competition, information technology and small business," said Mr Brown. "It is wholly unacceptable that consumer goods can still cost up to twice as much in Britain as in America."

The chancellor announced seven major reforms for business. He reduced the level of corporation tax to 30 per cent from April, calling it the lowest rate in British history and in any major industrialised country. The small companies tax was cut to 20p benefiting 350,000 companies.

For the very smallest businesses with profits of up to £10,000 (\$16,000) a year, there

Optimism on growth rates

Britain's growth rate will be between one per cent and 1.5 per cent this year, Gordon Brown, the chancellor, said yesterday, Deborah Hargreaves writes.

Sharp cuts in interest rates by the Bank of England, the UK central bank, have led to government expectations of a robust bounceback for the economy next year. The growth rate will rise to 2.25 per cent to 2.75 per cent in 2000 and 2.75 per cent to 3.25 per cent in 2001, Mr Brown said. British interest rates of 5.5 per cent are now at their lowest long-term rate for 40 years with inflation measured at 2.5 per cent.

will be a new starting tax rate of 10p in the pound from April 2000. The legislation is aimed at ensuring those who take risks are rewarded: 85 per cent of the firms gaining from the new rate have fewer than 10 employees - "the very firms we most want to see grow, the very firms whose growth will create the greatest number of new jobs."

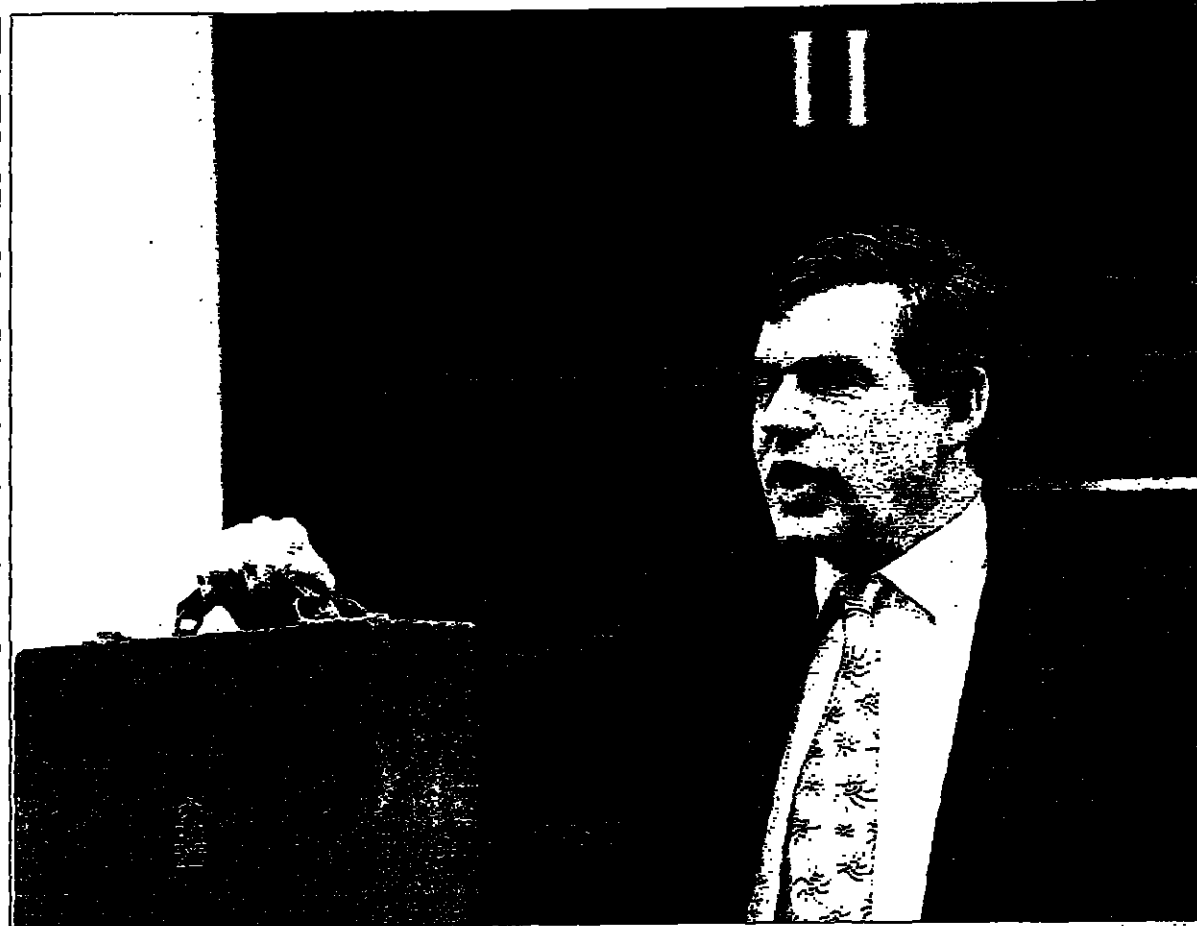
In recognition of the difficulties faced by manufacturers from a strong pound and global instability, Mr Brown announced £325m to allow small to medium-sized businesses write off 40 per cent of all they invest in the coming year.

Tax cuts for key personnel in high-risk businesses were also introduced along with proposals for an all-employee share ownership scheme. Tax credits for small companies investing in research and development would allow them to underwrite up to a third of their costs.

The chancellor also announced measures to upgrade Britain's science and high-tech industries with an additional £100m for the £800m joint infrastructure fund to renew the science capital base and £20m start-up funding for high-tech venture capital funds. This would be accompanied by a national IT strategy with computers available to all communities across Britain. Environmental measures aimed at reducing carbon emissions by 12.5 per cent by 2010 included proposals for an energy levy on business from April 2001 which would cut emissions by 1.5m tonnes of carbon a year. But this controversial measure would only be introduced after widespread consultation with industry. It would also be accompanied by £50m to encourage businesses to invest in new environmental technologies.

In an effort to help the lower-paid, the chancellor introduced a new 10p rate of income tax for the first £1,500 of earnings from April and a 1p cut in the basic rate of income tax to 22p from April 2000.

In a bid to assist families, he announced a tax credit for parents to replace the married couples' allowance.



Traditional gesture: Gordon Brown, the chancellor, holds the Budget red box aloft outside his London residence Snazzy Lynch

Company share schemes boosted

By Jean Eaglesham in London

Employees will for the first time be able to buy shares in their company using their pre-tax salary under a new share scheme designed to build a "democracy for enterprise", the chancellor announced.

However, experts said the tax breaks were not as generous as Gordon Brown had implied.

They also said the plan was unlikely to achieve the government's stated goal of doubling the number of com-

panies that offer share schemes to all employees.

The scheme, which comes into effect next year, allows employees to defer tax but not to avoid it altogether. "The chancellor did imply it was more tax-advantaged than it is; it's a benefit, but it's not completely tax-free," said Sarah Hyde, a partner at accountants Ernst & Young.

Employees can buy shares from untaxed income but they have to pay income tax on the purchase price when the shares are sold. Shares

sold within three years will also be subject to capital gains tax.

The scheme is a hybrid of the two existing all-employee schemes - profit sharing, in which employers distribute part of their profits by way of free shares, and save-as-you-earn (SAYE), in which employees have to save for shares but can buy them at a significant discount to the market price.

The new scheme will give employers the discretion to give their workforce an

effective discount, by matching any shares bought with up to two free shares.

Experts applauded the extra room for manoeuvre that this would give companies.

The government has linked the relatively low number of employee ownership schemes in the UK with the country's poor productivity. About 7 per cent of the UK workforce participates in such schemes at the moment in contrast to 10 per cent in the US and 23 per cent in France.

A mass of figures adds up to a modest redistribution of wealth

Philip Stephens picks through a plethora of Budget measures to find a vote-winning theme of help for the poor and hard-working

To blink was to miss the economics in Gordon Brown's speech. The pace of growth had slowed but would pick up. Inflation was low and would remain so. Public finances were in good shape. The last Budget before the millennium, the chancellor of the exchequer, would leave behind a century of sterile ideological conflicts between right and left. Then it was on to the serious politics.

Mr Brown told us that while the Bank of England sets interest rates and fiscal policy is on automatic pilot, the Treasury has become the engine room of social policy. It promises a fairer society - and a dynamic economy. The chancellor sees his task as building a bridge between the two.

As usual it was a confident performance. No one quite

commands the House of Commons like Mr Brown. If there was a criticism of the style, it was that his message was often lost in a blizzard of technical detail and populist wheezes. As corporation tax cuts made way for research and development tax credits, enterprise management incentives and tax-free Individual Learning Accounts, you could hear the accountants cheering.

The numbers - £4bn here, £6bn there - deliberately inflated the immediate changes. Mr Brown could never resist rolling up several years' tax cuts and public spending commitments into one big package. For the record, the net "giveaway" in the next financial year is a fraction over £1bn.

These are small points. The assault on the middle classes that many had feared

and a few had hoped for did not materialise. It was never planned. Tony Blair's government has elections to win. A 10p income tax rate makes a good campaign pitch. So does a new tax credit for children. And a £100 winter heating allowance for pensioners rich and poor could be worth a lot of votes in elections to the Scottish parliament.

The calculation is that the middle classes can live with the (deferred) abolition of mortgage tax relief and the married couples' allowance. There will be cries of outrage from the moral minority - but Mr Brown is probably right.

This, though, is a redistributive Budget - just as were the two that preceded it. Trawl through the dozens of changes in the Budget Red Book. Add up the rows of

pluses and minuses. And two things are clear. The first is that Mr Brown has paid for cuts in high-profile direct taxes with increases in more obscure, mostly indirect taxes. The second is that, by and large, the changes shift a modest amount of money from the higher-paid to those at the bottom of the scale. Thus the new family tax credit will be paid for through increased National Insurance contributions for those near the top of the income scale. Company car drivers will pay to keep the pensioners warm.

Some of this represents direct no-strings-attached transfers to the poorest - particularly pensioners and families with children. But the main beneficiaries - as the chancellor so often reminded us - are those able and willing to work.

Which takes us to Mr Brown's main political purpose: to square the circle of orthodox economics and social justice. Work, in the

chancellor's mind, is the only way the government can lever up the life chances of the least privileged. The conditions attached to the New Deal welfare-to-work programme - toughened again for the young in this Budget - provide the stick; a plethora of tax incentives

in culture is set on changing the culture of our society. The poor - or rather those among them fit for employment - are to be given opportunity. And with it a decent income. But they must be willing to work for it.

The question is whether the middle classes, whose views are so earnestly tracked in 10 Downing Street, will buy the package. The answer is a conditional yes.

Mr Brown has credit in the bank. The government's most precious, and for many, unlikely asset is the perception that it is competent to run the economy. Sure, the chancellor may be chipping away at some of the tax privileges of the better-off, but he has kept his word on inflation and spending. He is a credible guardian of the nation's finances.

And there is no hint of class envy in the redistribution. With tax cuts for small businesses and new incentives for entrepreneurs, the

chancellor presents himself as a friend of the hard-working rich as well as the deserving poor. That's clever politics as well as sensible economics.

All this is conditional. The present equanimity among the voters of Middle England is built on their own prosperity. Higher taxes slip by unnoticed when incomes are rising, jobs are safe and interest rates are falling.

Mr Brown's economic forecasts are built on optimism. Manufacturing is already in recession. The rest of the economy is perilously close to it. The national mood will change if he is wrong.

Budget-by-Budget, this chancellor is edging in the direction of a new society. But social engineering is a perilous business. Voters are fickle, and one day the Conservatives will present a credible opposition.

Enhanced role sought for European nations in Nato

By Alexander Nicoll,
Defence Correspondent

Changes to Nato command structures to give Europe much greater ability to launch military missions without US participation are to be proposed by the UK government today.

In a speech at the Royal United Services Institute in London, George Robertson, chief UK defence minister, will expand on the European defence initiative launched last year by Tony Blair, the prime minister. He will urge allies to agree on new steps at the alliance's 50th anniversary summit in Washington next month.

Under the proposals, new European Union capabilities should be built within Nato, without setting up a separate EU body or duplicating Nato assets. Decisions to deploy forces would con-

tinue to be taken by individual governments, not any EU or supranational body.

For Europe to tackle situations that do not demand a full Nato response, "we should build on the provisions that allow Europe access to Nato's military assets and capabilities for European-led operations," Mr Robertson wrote in a summary of his proposals. He will suggest that the post of deputy supreme allied commander Europe should be upgraded to ultimate commander of European-only forces. The post, until now held by a UK officer, would be rotated.

Europe would need to ensure reliable access to Nato resources. "We could identify a range of European command options and force packages for European-led operations, and take steps to ensure they are regularly

exercised," according to Mr Robertson.

The proposals are likely to be welcomed by other European nations, which have long desired a stronger European defence identity. The immediate problem will be France's absence from Nato's command structure because of a long-standing dispute with the US. Mr Robertson will argue other European countries need reform their armed services in a similar way to the UK, stressing rapid deployability of troops to deal with crises, and downplaying the need for national defence.

Javier Solana, the Nato secretary-general, yesterday said the alliance was ready for a stronger European role. Building it within Nato would ensure that Nato members outside the EU - Iceland, Norway and Turkey - would not be excluded.

BRITAIN

Entry to euro urged in Rover rescue plan

By Haig Simonian in Geneva

Werner Sämman, new chairman of Rover, yesterday urged the UK government to join the euro "as soon as possible", as he set out six priorities to restore the UK subsidiary of BMW to profitability.

"We would like to export products, not jobs," he said. "With a high pound, the danger is that we export jobs."

The amount of UK government aid to be made to the German carmaker is one factor likely to affect its decision to announce in its 1999 results new models at Rover's Longbridge plant in Birmingham, central England.

Mr Sämman focused his fire on performance in the UK. Rover's prime market, where sales and market share have crumbled, he boost performance, he

announced a push on new products, marketing, quality and public relations.

BMW is expected to announce in its 1999 results later this month that Rover lost at least DM1.5bn (\$830m), based on its conservative accounting standards. As a first step to improve penetration of the crucial small family car market, Rover will later this year launch revised versions

of its slow-selling 200 and 400 models. Mr Sämman said the revised cars, codenamed "Jewel" and "Oyster", would be much more than facelifts.

Mr Sämman, an engineer previously in charge of BMW's engine and gearbox operations, said Rover had BMW's backing to remain a full-range carmaker.

However, a decision on whether the new models will be built at Longbridge is not

expected until BMW's supervisory board meets later this month. "As chairman of Longbridge, I'm fighting for Longbridge," he said.

Analysts have said Rover would need to build at least 500,000 units a year to justify the heavy investment in a new "platform" - or basic engineering structure - for the cars.

Geneva Motor Show, Page 16

Formula for arms handover goes to Sinn Féin

By John Murray Brown
in Belfast

The Ulster Unionist party yesterday met Sinn Féin to propose a way out of the weapons impasse that is blocking formation of a new power-sharing administration in Northern Ireland.

The pro-British party told the political wing of the Irish Republican Army that the

executive could be established on a simple written assurance that IRA disarmament had started from Canada's Gen John de Chastelain, who chairs the international body overseeing the destruction of illegal arms.

The proposal was made by David Trimble, the Ulster Unionist leader and the province's first minister, to Gerry Adams, the Sinn Féin

president, during a 75-minute meeting near Belfast, the regional capital.

Mr Trimble said "a limited amount of progress was made". The UUP has demanded a "verifiable start" to IRA disarmament before Sinn Féin enter the 10-member executive, which is due to take over running the province when powers are transferred from the

UK parliament in London. However, the IRA - which advocates a united Ireland - has given no indication of being prepared to change its position that there will be no arms decommissioning.

The latest plan envisages a 3-hour gap to await a fax from Gen. de Chastelain on March 29 - the new deadline set by the UK government for the transfer of powers

and the day executive members are due to be nominated. This would provide a face-saving formula for both sides.

It is unclear whether Mr Trimble realistically believes Sinn Féin will take up his offer. But by detailing a compromise formula, officials say Mr Trimble is keen to emphasise the "inevitability of decommissioning."

Caution in City over Budget handouts

By Philip Coggan and Arkady Ostrovsky in London

Reaction to the Budget in the City of London was guarded after the chancellor proved to be more generous with tax handouts and spending increases than most forecasters had expected.

Economists had been looking for a "neutral" budget with no net handout to taxpayers on the grounds that Gordon Brown would be constrained by the possible effect on public finances of an economic slowdown.

Bob Semple, the BT Alex Brown strategist, said: "There is a fair bit of demand management involved. My guess is that the equity market reaction will be positive but gifts will be more suspicious. It looks like there will be a fiscal stimulus of £3.5bn (\$5.83bn) in 2001, a likely election year."

Some saw the Budget as altering the outlook for interest rates with the Bank of England, the UK central bank, likely to react cautiously to the boost to the economy.

Tax up by stealth, says opposition

William Hague, leader of the opposition Conservative party, accused Mr Brown of being the "pickpocket chancellor," increasing taxes by stealth despite the chancellor's presentation, writes Deborah Hargreaves.

Paddy Ashdown, leader of Britain's third party, the Liberal Democrats, said the chancellor had adopted a "scattergun approach," although he welcomed many of the measures.

The party branded the new 10 pence rate of income tax as an expensive gimmick. Malcolm Bruce, its Treasury spokesman, said: "This Budget means well, but Gordon Brown has put gimmickry and complexity before fairness and simplicity."

growth later in the year to which the monetary policy committee will be forced to respond by raising rates."

The benchmark 10-year gilt fell by around half a point, pushing up the yield by about 5 basis points. Kevin Adams, gilt analyst at Barclays Capital, said the gilt market could face further weakness, especially at the short end of the market.

Short sterling, the market's vehicle for speculating on interest rate changes, fell on the back of the Budget, indicating that traders thought the chance of further rate cuts had been reduced.

However, the contract still indicates the possibility that base rates will fall from the current 5.5 per cent to 5 per cent by September.

The equity market reacted rather better, with certain stocks and sectors benefiting from the expected boost to consumer spending.

The FTSE 100 index, which was about 9 points ahead before Mr Brown began his speech, ended 28.9 points higher at 6,237.7.

Lex, Page 14; Currencies, Page 21; London Stocks, Page 28

Cut in corporation tax wins welcome

Measures send clear signals that feared reforms of tax and avoidance rules are to be dropped, writes Jim Kelly

There was good news for small and big business in the Budget with a new 10p corporation tax starting rate for 270,000 growing companies and clear signals that much feared reforms of capital gains tax and avoidance rules are to be ditched.

As expected the chancellor trumpeted already announced cuts in corporation tax to 30p - and 20p for small companies - but in a surprise move introduced a 10p rate for companies with taxable profits up to £10,000, tapered up to £50,000.

The chancellor took the opportunity not only to draw favourable comparisons with the UK's main economic competitors but also to hint that more good news might be on the way for industry.

"For the life of this parliament the rates will be 30, 20, and 10 or lower."

But there was much better news for large companies buried in the government's background statements to the chancellor's speech.

Wholesale reform of capital gains tax for companies has been dropped following an angry reaction from industry which feared complicated

changes mirroring those for personal capital gains.

And the Treasury also gave the clearest hint yet that it may drop plans to introduce a General Anti Avoidance Rule (GAAR) which would give the tax authorities power to stop transactions constructed to limit tax bills.

The chancellor said it remained an "option" to bring in a GAAR "if more targeted legislation proved ineffective" - "but the government would not be proceeding with a GAAR in this Budget or with a mini-GAAR for VAT on construction services."

"Big business will be extremely relieved - this is wonderful news," said Ian Barlow of KPMG. "CGT reform would not have worked and the GAAR could have undermined many ordinary commercial transactions."

"We are delighted with the announcement on the GAAR - it looks like a signal that they will quietly drop it in the longer term," said Douglas Fairburn, head of tax at Ernst & Young.

On personal capital gains tax, the chancellor said his

earlier reforms were designed to reward long term commitment with a 10p rate. He announced that by April 1 the first £7,100 would be free of CGT. "This measure will exempt 10,000 more people from CGT altogether," he said in a fillip for small businesses.

In another measure which will particularly help owners of family businesses, the chancellor raised the threshold at which inheritance tax at 40 per cent bites to £231,000 from £223,000 although stricter measures for hitting avoiders will be brought in and loopholes closed.

As usual, the Budget contained a raft of specific measures designed to tackle corporate tax avoidance. "The budget included a ragbag of specific avoidance measures. At first sight the VAT grouping changes look less draconian than feared," said Paul George, tax partner at PwC.

Other measures include: Existing rules will be extended to stop artificial techniques designed to strip value out of subsidiaries prior to their sale to avoid tax.

Loopholes in the rules for North Sea corporation tax and petroleum revenue tax which could be exploited by the sale and leaseback of assets will be closed.

● New tighter rules will be brought in to prevent companies avoiding tax by channelling UK dividends via controlled foreign companies (CFCs).

● Legislation will be introduced to tax sums paid by landlords to induce tenants to take out a lease - so-called "reverse premiums". While the use of these was widespread when property values collapsed in the 1980s they are far less frequently used now.

● A whole range of anti-avoidance measures to protect VAT will be introduced including measures targeted on construction services. Wholesale reform of the laws covering VAT Groups - which allow related companies to rationalise their payments - appears to have been sidelined after widespread opposition, but limited reforms are proposed.

● The government confirmed it is to close a loophole which allowed UK companies to avoid paying Stamp Duty Reserve Tax in mergers or acquisitions involving foreign currency bearer instruments. Other aspects of the SDRT regime are to be tightened up.

● IPT applies to motor, property, travel, and extended warranty policies. But it is not applied to life cover

Tax relief plan for intangible assets

By Alan Cane and Kevin Brown

The government plans tax relief on the costs of buying licences to offer the next generation of mobile phone services in a move with significant implications for capital investment in intellectual property.

Under current legislation, the cost of a mobile phone licence would not qualify for capital allowances because it is defined as an intangible asset. Now the chancellor is proposing to offer tax relief over the 20-year life of the licences. Legislation will be introduced in 2000.

The government is planning to auction four or five licences for the next generation of mobile phones early next year with the aim of raising a minimum of £1.5bn (£2.4bn) for the state.

Pam Jackson, international tax partner at PwC, said the UK was lagging behind other countries in the treatment of intangible assets. Ms Jackson said US companies, for example, could acquire such property in the UK and then write it off against profits in the US.

NEWS DIGEST

ENVIRONMENTAL REFORMS

Energy tax expected to raise minimum of \$2.8bn

An energy tax on business, as part of "the largest and most radical package of environmental tax reforms ever announced in this country", was announced yesterday among the Budget measures by Gordon Brown, chancellor of the exchequer. The tax is expected to raise at least £1.75bn (\$2.8bn) in its first full year. Mr Brown promised "significantly lower rates of tax for energy-intensive sectors that improve their energy efficiency. Energy-intensive sectors are being asked to come forward with proposals, which may include trading in carbon 'permits'."

Mr Brown said that the government was implementing the recommendations made by Lord Marshall, the chairman of British Airways, who led a government taskforce on the business use of energy last year. The chancellor said the energy tax would cut carbon pollution by 1.5m tonnes, as part of a programme of measures announced in the Budget that would together cut carbon pollution by 3m tonnes. Vanessa Houlder, London

TOBACCO DUTY

Increase disappoints industry

The immediate 17.5p increase on the price of 20 cigarettes means that a pack of 20 sold in the UK will cost £3.82 (\$6.15) compared with £1.98 for a similar pack in France, the UK Tobacco Manufacturers' Association said yesterday. Mr Brown said the government would continue increasing tobacco excise by 5 per cent above inflation.

While tobacco smuggling may be costing £1.5bn in lost excise each year, this could not undo a policy on cigarette duties for "good and urgent health reasons", the chancellor said. But cigarette manufacturers who had hoped for a duty cut said the government had failed to recognise that high tobacco taxes were actually causing smuggling.

● The Scotch Whisky Association was disappointed that tax had not been cut to help reverse the slide in UK whisky sales, saying there had been a drop in the UK market of around 7 per cent mainly "because shoppers are going overseas to France to buy cheaper whisky".

MOTORING AND FUEL

Tax cut on smaller cars

Unleaded petrol will rise by 3.79p a litre, taking average prices up to around the 67p a litre mark - about £3.04p (\$4.89) a gallon. Leaded petrol goes up 4.25p a litre to around 74.4p a litre; diesel rises 6.14p a litre to nearly 71p a litre. The annual car tax disc will be reduced by £55 from the current £150 for smaller cars from June 1. The rate for other cars will rise by the level of inflation. Mr Brown said the duty would be frozen for 98 per cent of all trucks, and the licence fee cut by up to £1,000 for trucks and buses with clean engines. He also announced a reform of company car tax to encourage the use of fuel-efficient cars. This reform, he said, would cost the typical user about £1 a week. To cut pollution, employees will be able to get tax-free benefits from employer-run or employer-subsidised buses, car-sharing schemes and other environmentally-friendly means of getting to work.

FILM INDUSTRY

Extended tax break welcomed

The news that Mr Brown intends to extend the tax allowance available for new films made in the UK for another two years until July 2002 was welcomed by the film industry. Mr Brown originally unveiled proposals for film makers to write off against tax the production or acquisition costs of UK-made pictures with budgets of up to £15m in his first Budget in 1997. After a delay while the government completed paperwork, the tax breaks have proved extremely popular with film makers at a time when the UK production sector has been bedevilled by economic obstacles, notably the strong pound. Alice Rawsthorn, London

INVESTMENT TRUSTS

Buy-back rules set to ease

The government yesterday moved towards relaxing restrictions on investment companies buying back their shares, with the publication of a consultative paper. Investment trust companies will be able to use capital profits to buy back their shares without having to renounce their trust status under changes proposed. Under a law of 1985, investment companies may only use "revenue profits" - such as dividends and other investment income to repurchase their own shares, rather than use capital profits from increases in the value of their investments. Ian McCartney, an industry minister, said the existing system was "unnecessarily restrictive". Jane Martinson, London

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SCIENCE & TECHNOLOGY

BOOK REVIEW GENETICALLY MODIFIED FOODS

Worm at the heart of the blossom

Two US scientists have joined the attack on the speed and scale of agriculture's genetic revolution, says **Vanessa Houlder**



AGAINST THE GRAIN
The genetic transformation of global agriculture

Marc Lappé and Britt Bailey

Common Courage Press
\$14.95

Opposition to genetically modified food has been relatively muted in the US. But last week two Californian researchers published a vigorous attack on the speed and scale of the revolution. Their book's message is that the genetic revolution in agriculture has not been accompanied by sufficient consideration of long-term concerns. The authors, who work for the Centre for Ethics and Toxins in northern California, argue that GM crops are being introduced on too large a scale, too quickly and with too little oversight.

One problem, says Marc Lappé, a pathologist who co-wrote the book with Britt Bailey, an environmental scientist, is the growing power of a few agrochemical companies, perpetuating the trend towards monoculture, in which a single variety of a crop is grown on a vast scale.

This could have severe consequences for genetic diversity, increasing the risk of epidemics which – as the 19th century Irish potato blight showed – are more likely to occur among genetically uniform food crops. The need to maintain genetic diversity makes a case for setting aside a percentage of global crop acreage to house non-engineered seeds, Mr Lappé says.

The authors are also anxious about the "short-sighted" overuse of particular GM crops. They say it "is reminiscent of the early days of the antibiotic revolution", when antibiotics were put to relatively trivial uses that resulted in the emergence of antibiotic-resistant strains.

Their concerns are focused on crops engineered to produce a toxin called Bt (*Bacillus thuringiensis*), which controls insects while greatly reducing the need to use pesticides. They fear that overuse will make insects tolerant of the toxin, which is widely used by organic farmers. "Over time, perhaps just one or two growing seasons, what has been an ecological miracle may become an ecological disaster," they argue.

The book also argues that the GM revolution will lead to far greater reliance on a small number of herbicides. In one case, it argues, regulators have overlooked the potential residual toxicity of an important breakdown product that could enter the human food chain.

The authors have other worries about the health risks of GM foods. Boosting the activity of a gene that makes critical amino acids may, in addition to conferring resistance to a herbicide, change the plant's metabolism, creating by-products called isoflavonoids. These have similarities with an important set of human hormones called phy-

toestrogen, which may have implications for soy-based dairy foods – and particularly baby milk formula.

Mr Lappé says his work suggests that, if anything, levels of phytoestrogens are lower in genetically engineered varieties than in conventional varieties. "It can cut both ways," he says. But it underlines the case for assuming that there may be differences between GM crops and their non-engineered counterparts.

He argues for a "wholesale review of the regulation, testing and inspection of all engineered crops". The failure to label GM foods is the "ultimate foolhardiness" because it makes it impossible to track transgenic crops in the food chain for possible adverse effects.

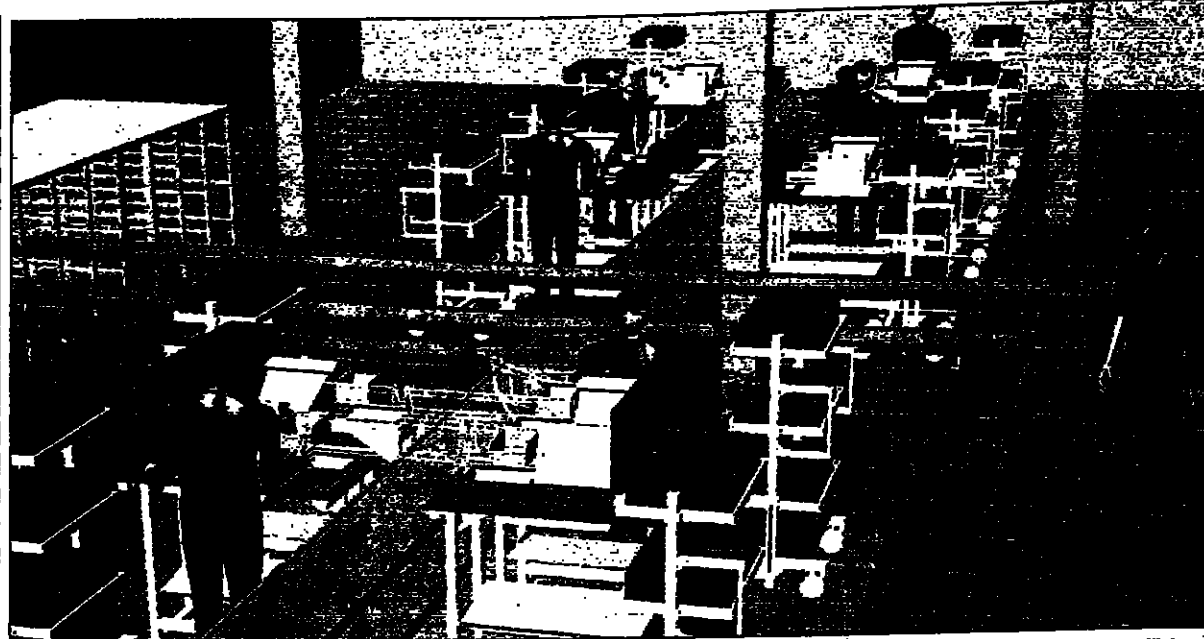
The perception that the US regulation system is tough is wrong, he says. The interaction of the Department of Agriculture, the Food and Drug Administration and the Environmental Protection Agency creates a regulatory "patchwork quilt" in which each agency

can duck responsibility.

In this litany of concerns about regulation, there might be a risk of understating the potential benefits of genetic engineering. Perhaps the most powerful argument of the technology's proponents is that it offers a promising approach to feeding a growing world population while reducing damage to the environment.

Mr Lappé agrees there is a need for a generation of more productive crops, but says agrochemical companies have so far developed fewer of these crops than their rhetoric suggests. The problem, he says, is that short-range economic considerations have driven the selection of genetic products, rather than choices based on long-term objectives or public benefits.

Mr Lappé admits to some philosophical qualms about GM crops. But he insists that he is arguing for more public accountability and control, rather than outright rejection. "This isn't a book of blanket opposition to the technology. There might be real advantages. But there are legitimate questions to be asked."



Watch your step: Tecnomatix's software program for an electronics assembly line allows users to foresee potential bumps and collisions.

INFORMATION TECHNOLOGY MANUFACTURING SOFTWARE

Virtually perfect

Electronics manufacturers are borrowing from motor industry experience to get production right first time, writes **Avi Machlis**

It is often difficult for manufacturers in the electronics industry, where new products are released every few months, to think about changes to production and design processes.

But in recent months 10 large electronics companies, including Toshiba of Japan, Bosch of Germany and Nokia of Finland, have started experimenting with virtual manufacturing software that has already made a big impact on the automotive industry. These technologies allow companies to build realistic three-dimensional simulations of factories, eliminate potential production errors and save precious time in the hectic race to market.

"The manufacturing industry, and electronics (in particular), are looking for ways to accelerate time to market and optimise end-to-end process chains," says Bruce Jenkins, vice-president of Daratech, a Boston-based market research firm for the computer-aided design, manufacturing and engineering industry (Cad/Cam/CAE). "They are beginning to wake up to the opportunity that exists in the manufacturing and production engineering area."

Cad technologies are already widely used in many industries. Automated pro-

duction is also widespread. But in recent years, Deneb, a US subsidiary of Dassault Systèmes, Electronic Animation of Israel and Tecnomatix of Israel have introduced Cape, or computer-aided production engineering. Dassault and EA are still focused mainly on the automotive and aerospace industries, while Tecnomatix is leading the way into the electronics industry.

Tecnomatix hopes for a boost in its drive to penetrate new markets from Parametric Technology (PTC), the Massachusetts-based company that is the biggest in the mechanical Cad/Cam market. PTC announced yesterday at an industry conference in Chicago that it will integrate Tecnomatix tools into its Windchill suite of software for management of product and process life cycles.

Cape enables companies to streamline design of production processes, for example, by building three-dimensional computer simulations of assembly processes and production lines, complete with super-realistic images of rolling conveyor belts, robots and even human workers.

The Cape concept is to pinpoint problems on screen, such as colliding robots or parts that do not fit. In the past many of these mistakes

were caught only after costly trial and error.

Many electronics companies have already invested heavily in Cad/Cam technologies. Some have even introduced Cape technology for planning printed circuit boards. Until now, though, the planning of manufacturing has usually been worked out by hand or using tools developed in-house.

Harel Beit-On, Tecnomatix chief executive, says: "We recognised the same pattern

The concept is to pinpoint problems such as colliding robots or parts that do not fit

that we saw 10 years earlier in the automotive industry – there was something missing in the middle [between product design and manufacturing]."

Electronics companies will find it hard to ignore the benefits reaped by many car manufacturers. For example, Nissan, the Japanese car-maker, is cutting its new product cycle from between 20 and 25 months to 12 months with the help of Dynamo, a Tecnomatix pro-

gram for assembly processes. Mr Jenkins says: "I have no reason to think that the benefits won't be equally big, potentially, for the electronics industry."

Initial reaction from electronics groups has been positive. Toshiba has cut the moulding process of laptop computer casings from 32 to 24 days using Valleys, a Tecnomatix tool for testing product tolerances.

Silicon Graphics, the US manufacturer of high-performance computers, is confident that Tecnomatix will help it improve time-to-market and yield. "The systems are very graphical and use simple concepts," says a Silicon Graphics engineer. "It's also intuitive and stimulates the factory experience." Amid the enthusiasm, however, an engineer at one company noted: "It's expensive."

While most car manufacturers have large specialised engineering departments, electronics companies are often far less centralised. To cater for this difference, Tecnomatix has redesigned its tools to work on Windows NT operating systems instead of Unix, and a new product line, Tune, will be released in the next few weeks.

Amir Livne, Tecnomatix vice-president of marketing, says: "We wanted to meet the needs of those who don't want to spend two weeks learning a product."



PAUL TAYLOR
IN LONDON
VIEWPOINT@FT

Route towards a third way

A new model promises cheaper internet access as service providers are encouraged to abandon subscription charges

The cost of accessing the Internet has typically comprised two elements for dial-up consumers: a monthly subscription charge payable to the Internet service provider and the per-minute cost of a local telephone call payable to the telecoms provider.

Two main business models have emerged: the North American one in which most local calls are free but Internet users pay a relatively high monthly subscription charge; and the traditional European model in which monthly subscription charges are relatively low but local call costs are high.

Now, however, a distinct third model has emerged in the UK, where Dixons' success with Freeserve, its subscription-free service, has spawned lookalikes and encouraged a number of existing ISPs to abandon their monthly subscription charges.

Freeserve has managed to attract 1.3m users (one in five UK Internet users) since its launch in September, far outstripping the wildest estimates and making it a focus of interest.

On the face of it, Freeserve and its rivals represent an interesting alternative for consumers tired of paying a flat monthly subscription fee that ranges between £7.50 and £15 (£12 and £9) a month, together with per-minute connection costs.

But as Eckard Pfeiffer, Compaq's chairman, reminded us recently, there is no such thing as a free lunch. Freeserve and its rivals plan to recoup their costs through advertising and revenue-sharing with the telecoms provider that connects the local call, for which users continue to pay.

Dixons expects Freeserve to break even next month, six months earlier than planned. In the meantime, however, the success of the model has forced telecoms providers and ISPs to reassess their options.

Just how readily the subscription-free model can be transferred outside the UK will depend on local market conditions and national regulator environments. There are already similar services in France and Germany, and NetZero has set up a subscription-free service in the US.

In the UK one of the more bizarre – and greedy – reactions came from British Telecom, which told Ofcom, the UK telecoms regulator, that it should be allowed to keep a higher proportion of the local call charges paid by subscription-free Internet users. Simultaneously, BT removed the 1p-a-minute charge it was making for its own internet access service, Click.

Some leading independent ISPs in the UK believe they will be able to continue to charge monthly subscriptions for advertising-free, high-quality internet access and will boost their revenues by offering other services. But others are already preparing to jump ship.

As noted by Philip Lakelin, one of the authors of a report from Cambridge-based Analysis on competitive strategies for independent ISPs, independent ISPs face a rough ride over the next few years as competition intensifies in the rapidly expanding worldwide market for Internet services.

Independent ISPs occupy a precarious position in the internet supply chain, acting as intermediaries between the owners of the transmission networks over which internet traffic flows and the owners of content on the web. Maintaining this position requires them to compete in both the infrastructure business and the service-supply business.

Mr Lakelin says: "Over the next five years independent ISPs will find themselves increasingly required to juggle the requirements of these two different business models."

Aside from the threat posed by subscription-free services, independent ISPs face growing competition from the established telecoms operators, while on the services side companies such as America Online and Yahoo! are redefining themselves as portals and shifting their main source of revenues away from basic access towards content-related services.

This suggests that with access margins continuing to be squeezed, dial-up access providers that fail to achieve at least 300,000 subscribers are unlikely to survive in the long term and that a much larger subscriber base will be required for ISPs relying heavily on advertising.

In the meantime, the regulator agencies, should

help foster competition by ensuring that telecoms services are "unbundled" and that dominant telecoms providers are unable to use their market might to crush their much smaller rivals.

At first sight, fixing the Year 2000 computer date problem is a no-win exercise. At best, it leaves an organisation just where it started, able to continue its operations. But it need not necessarily be that way.

A study by PA Consulting confirms that anticipating the millennium bug has created significant disruption and taken resources away from creating value-added IT for organisations.

However, the study also suggests that some organisations have seized the opportunity to revitalise the deployment of IT within their business. "It is a golden opportunity to upgrade, upskill and gain competitive advantage from IT," the financial controller of a manufacturing company told the researchers.

Many companies have seized the opportunity to accelerate new investment in IT systems and infrastructure, replacing ageing networks and enhancing systems.

The respondents, all of whom worked for organisations with annual turnover of more than £150m, also noted that working relationships between business managers and the IT department improved, that resources are being managed better and that the importance of aligning IT to business requirements through an IT strategy has been reinforced.

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This column appears fortnightly.

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THE ARTS

Virtuosic spoofs enliven New York music

In a less-than-snazzy locale **Martin Bernheimer** experiences the Eos Orchestra's 'Out There' Music, including its latest commissioned piece, 'Dracula'

Concerts, concerts everywhere. Stellar symphonic concerts. Costly concerts. Glamorous concerts. The venerable New York Philharmonic, under the safe, sane and often boring leadership of its incipient ex-Kapellmeister Kurt Masur, tends to Brahms and Beethoven at Lincoln Center. A long and glossy parade of visiting ensembles, representing cities from Atlanta to Zurich, annually wends its competitive way to Carnegie Hall. The guests play a lot of high-powered Tchaikovsky and Mahler and, like the resident orchestra, even venture a dutiful novelty once in while.

But, as is so often the case in musical New York, some of the most interesting events occur under modest auspices in less snazzy locales. Take, for example, the imaginative Eos

Orchestra, a rather youthful not-so-little band that specialises in paying tribute to neglected masterpieces – and demi-masterpieces, too. Formed in 1995 by Jonathan Sheffer, an enterprising conductor who brings a composer's sensibilities with him to the podium, Eos plays most of its concerts in the churchly auditorium of the Society for Ethical Culture on Central Park West. An uplifting message is emblazoned on the wall behind the performing area: "The Place Where People Meet To Seek The Highest Is Holy Ground."

In the past, Sheffer and friends have deftly balanced lofty ideals against practical limitations, offering sophisticated performances within a casual milieu. The tone was pervasively serious when Eos examined the

forgotten oeuvre of Paul Bowles and Alexei Haieff, the diverse compositions that have inspired the choreography of Merce Cunningham, and the changing faces of musical Americana as embodied by Gershwin, Copland

there" is an example of adjectival slang, referring to "something unprecedented, beyond accepted norms." The selected vehicles by Charles Ives, György Ligeti, David del Tredici and (are you ready?) Spike Jones

grateful for small favours. Ives' Three Pieces for Theater Orchestra invoked sonic landscapes from the turn of the century, terse tongue-in-cheek demonstrations of what can happen when an iconoclast allows himself to march in several directions at once to the lusty clashes of disparate drummers. Ear-stretching remains a healthy exercise, even though Sheffer and his orchestra delivered the trash goods rather weekly.

Their penchant for delicacy proved more useful in "Mysteries of the Macabre," a conflation of several arias sung by Gepopo, Chief of the Secret Police, in Ligeti's fabulous opera of the absurd, *Le Grand Macabre* (1978). In an inspired flight of perverse anti-typecasting, the composer assigned the parodistic

The composer took his bows flourishing a black and scarlet cape, no doubt imported for the occasion from darkest Transylvania

and Bernstein. There was nothing solemn, however, about the eclectic programme splashed across the platform last Thursday night.

The event bore a title: "Out There" Music. Sheffer likes descriptive catch-alls. According to the impresario-boss, "out

didn't prove quite as innovative, as important or as stylistically independent, as one might have hoped. The concert did, however, turn out to be engaging. And, more important, perhaps, much of it was funny. In the door world of orchestral experimentation, one must be

showpieces to a coloratura soprano. The stratospheric diva in drag chirps intricate bursts of filigree that could cause a Queen of the Night or Zerbinetta to tremble. The juxtaposition of otherworldly abandon and grotesque elegance creates a nice tension, a classic example, if you will, of the Ligeti-split personality in excelsis. Ilana Davidson surmounted every impossible vocal hurdle with charming ease.

The big premiere on the agenda took the sprawling, arch and rather inconsequential form of *Dracula*, commissioned by Eos from David del Tredici. An amiable spoof of yesterday's horror-film clichés it can hardly withstand comparison with the composer's limpid, bittersweet evocations of Lewis Carroll. Alfred Cora's vampirical text

leaves no room for introspection, and, for better or worse (probably worse), Del Tredici allows his soon-to-be victimised protagonist to spend a lot of time speaking and only a little time singing. This ludicrous "Liebestod" is outfitted with background busy-music and embellished with quaint sound effects. Wendy Hill brought panache to the meanderings of the sacrificial heroine. The composer took his bows flourishing a black and scarlet cape, no doubt imported for the occasion from deepest, darkest Transylvania.

Sheffer closed the festivities with three virtuosic spoofs from the rude pen of Spike Jones, low-brow relics of the daffy 1940s intent on demeaning high-brow hits. There was a burping medley billed as "A Goose to the Ballet Rousée," a buzzing-Bizet deconstruction called "Car Men," and "Shih Harry's Odd," which translates, of course, as "Shéhérazade." Everyone went home chuckling – well, almost everyone.

NEW YORK THEATRE

Annie loses her ammunition

The casting of Bernadette Peters in the new revival of Irving Berlin's musical *Annie Get Your Gun* caused some consternation when it was announced last year. Surely a star known primarily for her creamy skin, hourglass figure and lyrically pure interpretations of Stephen Sondheim could not fit comfortably into the rough buckskins of the Wild West sharpshooter Annie Oakley.

The complainers, so aware of the mark that Ethel Merman put on the part at its premiere in 1946, seemed to forget that Annie Oakley as written need not be all brass and sass. Both Judy Garland, who was fired from the movie version, and Betty Hutton, who replaced her, oozed the kind of vulnerability that Peters is

expertly after Frank insults her, then replying that he is a "swollen-headed cham-peon".

Even this sublime silliness, however, is problematic. Each time Peters does a slow burn she adds to the sluggish pacing that is the production's main detriment. And each time her director, Graciela Daniele, allows her to re-tailor a jaunty song like "I Got the Sun in the Morning" as a doleful ballad she only adds to the enervation.

In the second-act number "An Old Fashioned Wedding", we do glimpse how marvelous Berlin's material can be. The peacock-proud Frank, quite dashing played by Tom Wopat, insists that his and Annie's nuptials stay simple. Annie craves ostentation. As he refuses to budge, she mocks his position, dancing around him and miming post-ceremonial rice-throwing. They engage in repartee with a quicksilver lightness one would like to transfer to their other songs.

As for their colleagues onstage, they at least look their parts. Ronn Carroll, double-cast as the innkeeper Foster Wilson and the impresario Pawnee Bill, resembles Louis B. Mayer and evinces that Hollywood mogul's brand of benign imperialism. Ron Holgate, as Buffalo Bill, is suitably imposing. And Gregory Zaragoza, as Sitting Bull, amusingly mocks the white man's every folly.

To address the concern that this musical presents Indians in a ridiculously outmoded fashion, the producers enlisted the old Broadway hand Peter Stone to rewrite Herbert and Dorothy Fields' book. He trimmed a racist song and the most offensive dialogue, and updated several references, including a hilarious section about many tribes' late-20th-century predilection for opening gambling casinos on their reservations.

But neither scattered comic pleasures nor the fluid delivery of some of the show's profuse array of standards can compensate for a misconceived central performance and direction so clueless that, in the evening's worst moment, disco-ish dry ice wags onstage during the peerless lament, "Lost in His Arms". This white man say: Ugh.

Brendan Lemon



Bernadette Peters in Annie's buckskins: where she excels in vocal technique and comedy

OPERA IN MONTE CARLO

Two bites at the cherry

The only part of *L'amico Fritz* most opera-lovers know is the Cherry Duet. Mascagni's most delectable music certainly asks for an encore, but the way it got one at this performance must be unique. The occasion was the Sunday matinee at the Opéra de Monte Carlo, the second of just three performances of a new production of this rarely staged opera.

It was about two-thirds of the way through that number that the unthinkable happened. Angela Gheorghiu lost her place and for a minute or so she and the orchestra persevered down different paths. Finally, conceding that 70 musicians and a conductor cannot be wrong, she stopped and proposed an action replay of the duet from the beginning – something I have never witnessed before in 30 years of opera-going.

Everybody hastened to put a good spin on it. The orchestra hurriedly flicked back through their pages. The prompter, possibly fearing retribution, redoubled his efforts and turned the rest of the duet into a trio. As the singing had been so beautiful, nobody seemed to mind. All the same, I would not recommend that she repeats the trick at La Scala, Milan. Italian audiences are known to gobble up faltering sopranos as an antipasto.

As the two principals account for almost everything in the opera that matters, it is a good idea to hire singers who will pull in a crowd. At Monte Carlo Gheorghiu and Roberto Alagna caused a rush for tickets that must have made the annual Grand Prix look positively sedentary. Over the past couple of years the husband-and-wife team has flown from one opera house to another on a jetstream of controversy. A succession of public stand-offs with producers and managements culminated in their now-famous joint sacking from the Metropolitan Opera in New York. "Les enfants terribles de l'opéra" screamed a cover story on a leading French music magazine on sale at the airport. Still, as the fresh young lovers of Mascagni's opera, they could not have been better cast.

The great virtue of *L'amico Fritz* is that it is not *Cavalleria rusticana*, the much more famous opera that preceded it. In place of

Cav's guisy drama and crude musical style, Mascagni was keen to show how cultivated a composer he could be and the conversational delicacy of much of this next score is skilful and elegant, especially in the Cherry Duet.

To put this little incident behind them, both went on to give 110 per cent. Alagna, returning to a theatre where he made some notable early appearances, sang with ardent tone to make a near-ideal Fritz. Gheorghiu's Suzel may have lacked Latin warmth, but she knows exactly how to colour a phrase and there are signs the voice is growing bigger and stronger. Mascagni

It was about two thirds of the way through that number that the unthinkable happened

barely gives the rest of the cast a look-in, but Anna Bonitatibus seized her brief opportunities as Beppe and Lorenzo Saccomani did what was needed as David, Cupid's match-maker.

The conductor, Evelino Pidò, gave a flaming performance of the Act 3 Prelude, but fortunately managed to keep his cool when his leading lady demanded that he stop the show and start again. The other big interest of the production was seeing the work of the other half of the Alagna co-operative, designers David and Frédéric, Roberto's brothers. At this point the management of the Metropolitan Opera has to stifle a chuckle, as it brought down the guillotine when Roberto tried to suggest that his brothers take over *La traviata* in preference to the Met's choice, a certain Franco Zeffirelli. In the event, the sets for *L'amico Fritz* were solid and conservative.

By the end there was plenty to be thankful for. The curtain fell to enthusiastic cries of "Bravi!", "Roberto!", "Angela!" – everything except "Encore!" – but then we had heard the hit number twice already.

Richard Fairman

INTERNATIONAL Arts Guide

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathard; Mar 11, 14

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Biondetti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessi and Alberto Cupido; Mar 14

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra:

conducted by James Levine in Mahler's Symphony No. 3. With mezzo-soprano Michelle DeYoung, women of the Symphony Chorus and the Glen Ellyn Children's Chorus; Mar 11, 12, 13

OPERA
Lyric Opera of Chicago
Tel: 1-312-332-2244
www.lyricopera.org
Die Meistersinger von Nürnberg: by Wagner. Conducted by Christian Thielemann in a staging by Kurt Horres, with designs by Andreas Reinhardt; Mar 10, 13

DRESDEN

OPERA
Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 14

EDINBURGH

CONCERT
Queen's Hall
Tel: 44-131-668 2019
Scottish Chamber Orchestra: Andrew Litton conducts the world premiere of Robin Holloway's Double Bass Concerto, performed by Duncan McTier. The programme also includes works by Dvorák and Schumann; Mar 11

LAUSANNE
OPERA

Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Dido and Aeneas: by Purcell/ Curlew River: by Britten. With piano soloist Murray Perahia; Mar 10, 13
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own *Prasanta Anna*, and in Rossini's *Petite Messe solennelle*; Mar 11, 12

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● City of Birmingham Symphony Orchestra: conducted by Simon Rattle in Nicholas Maw's *Odyssey*; Mar 15
● London Philharmonic Orchestra: conducted by José Serebrier in a programme including works by Stravinsky, Piazzolla, De Falla and Rodrigo. With guitar soloist Slava Grigoryan and castanets soloist Lucero Tena; Mar 12
● Philharmonia Orchestra: conducted by Christoph von Dohnányi in Mahler's Symphony No. 9; Mar 13

MILAN

EXHIBITION
Palazzo Reale
Tel: 39-02-8691 5738
L'Anima e il Volto: (The Soul and the Face): major exhibition of portraiture, comprising 370 works ranging over 400 years; to Mar 14

MUNICH

CONCERTS
Philharmonie Gasteig

Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist Murray Perahia; Mar 10, 13
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own *Prasanta Anna*, and in Rossini's *Petite Messe solennelle*; Mar 11, 12
● Philharmonie der Nationen: conducted by Justus Frantz in works by Beethoven; Mar 14

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Art Across Borders: Classical Modernism from Cézanne to Tinguely and World Art – as seen from Switzerland. Display of the collection made by Swiss recluses Josef Müller (1887-1977), which combined European modernism with classical antiquities and pre-Colombian art. Includes works by Cézanne, Kandinsky and Miró; to May 30

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatsoper.bayern.de
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 12, 14

NAPLES

EXHIBITION
Museo di Capodimonte
Mattia Preti between Rome,

Naples and Malta: first of three special exhibitions marking the 300th anniversary of the death of Mattia Preti (1633-1699), the southern Italian painter known as 'Il Cavaliere Calabrese'. The show emphasises the influence of Caravaggio, and includes about 60 paintings and 30 drawings by Preti and his contemporaries; to Jun 11

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Paavo Järvi in works by Paul Creston, Bartók and J. Brahms; Mar 11, 12, 13

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycoopera.com
Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Panchella in the title role; Mar 10, 13

PARIS

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.musee-orsay.fr
Edward Burne-Jones: major retrospective of the British pre-Raphaelite painter, which forms the mainstay of the museum's 'saison anglaise'; to

Jun 6

OPERA
Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke; Mar 12, 15

PORTLAND

JAZZ
Schnitzer Concert Hall
Tel: 1-503-248 4335
Lincoln Center Jazz Orchestra: America in Rhythm and Tune. First date of the Duke Ellington centennial tour, led by Wynton Marsalis; Mar 10

ROME

EXHIBITION
Galleria Nazionale d'Arte Moderna
Tel: 39-06-322 981
Picasso 1937-1953: The Italian Years. Around 70 works, including paintings, sculptures, ceramics and drawings, from the period between 1937, when Guernica was shown at the Exposition Universelle in Paris, and 1953, when Picasso himself organised major exhibitions in Milan and Rome. Includes loans from the Picasso Museum in Paris; to Mar 14

SAN FRANCISCO
CONCERTS

Davies Symphony Hall
Tel: 1-415-864 6000
San Francisco Symphony and Chorus: conducted by Herbert Blomstedt in Bach's St. John Passion; Mar 11, 12, 13, 14

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Shari Greenwald/Ashley Putnam; Mar 10, 13

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COMMENT & ANALYSIS



MARTIN WOLF

Unreal remedy

The IMF is prescribing masochism for Brazil. Britain, post-ERM, suggests that there is an alternative way to the market's heart

On September 16 1992, sterling was released from the exchange rate mechanism of the European monetary system. In the course of that turbulent day, the UK authorities briefly raised the base rate of interest from 10 to 15 per cent in a futile attempt to ward off devaluation. This attempt failed. Once out of the ERM, interest rates fell progressively, to a low of 5.25 per cent in early 1994.

For the British economy, this was a turning point. As the chart shows, the exchange rate fell sharply at first, but soon stabilised. Inflation remained subdued. Most important, the economy proceeded to stage a strong recovery, with output expanding 2.5 per cent in the year to the third quarter of 1993 and then 4.9 per cent in the year to the third quarter of 1994. So strong a recovery could not have occurred without lower interest rates.

It is a happy story. It need not have been. The UK might have been in the hands of the International Monetary Fund. If the IMF had run true to form it would have insisted on higher rates. It is even easy to guess its argument. The UK, the IMF staff would

have noted, was a country with a poor record on inflation and a long history of currency depreciation. The fiscal position was also deteriorating swiftly at that time. Now that the exchange rate anchor had failed, the UK had to regain lost market confidence. So what would good Dr Fund have proposed? Higher interest rates. With higher rates, the economy in collapse and the fiscal position worsening, the Lord knows what a mess the UK would have become.

A nightmare? Certainly. Inconceivable? Hardly. The IMF's canonical view on interest rates in a currency crisis is clear and brutally simple. By definition, it argues, the country is suffering a loss of confidence. It runs the risk of being caught in an inflation-devaluation death spiral. Moreover, the risk of such a spiral arises almost irrespective of the country's record. Indeed that point is explicitly made in the IMF's assessment of its performance in the Asian crisis. "Higher real interest rates are, argues the IMF, a necessary condition for restoring lost confidence."

This view then is why the course of interest rates in Brazil, as shown in the

chart, has been so different from that in the UK. High interest rates were used, unsuccessfully, in the foolish (IMF and US-backed) attempt to sustain the Real's dollar peg, this having been Brazil's biggest error. But things grew worse, not better, following the floating of the Real on January 15. Short-term rates were then raised steadily, from 29 per cent in mid-January to around 39 per cent by the beginning of February. They then jumped to 45 per cent on March 4. The panic continued, all the same.

Not forget that until the shock of the devaluation, inflation had been low in Brazil, as the chart also shows. The real interest rates Brazil has suffered have been inconsistent with healthy economic growth. Now they will help generate recession. The latest Brazilian economic memorandum, accompanying the agreement with the IMF announced on Monday, suggests the economy will now contract by between 3.5 and 4 per cent this year.

Experience suggests that this preliminary assessment of the results of a devaluation-cum-high-interest rate package will prove too optimistic. J.P.

Morgan already forecasts a contraction of 5.5 per cent of gross domestic product in 1999.

So Brazil, here comes recession. It is horrifying to think this is the best the economics profession can come up with. For what the IMF is saying to acclaim from market participants, central banks and ministries of finance around the world is that the only way for a government to restore market confidence is to demonstrate its willingness to inflict misery on itself and its society. This is, in short, a masochist's route to credibility.

It would be unfair to say there is no defence for such a policy. Higher real interest rates do increase people's willingness to hold a currency, other things being equal. But note that the annualised rate of interest required to persuade people to hold a currency expected to depreciate by 1 per cent a day is over 3,600 per cent, not 45 per cent. Note, above all, that the extent to which unsustainable policies can restore credibility is at the least open to question.

Why is a high interest rate policy unsustainable in Brazil? An obvious answer is that no government will find it easy to survive a depression. But there is a more direct reason: the fiscal position. It is almost universally agreed that the government's pre-devaluation policies lacked credibility for two reasons: the overvaluation of the Real and consequent external imbalance (with current account deficits running at around 4 per cent of GDP) and the fiscal deficit.

Now just the fiscal deficit remains. But at around 50

per cent of GDP, Brazil's public indebtedness is not particularly high. Moreover, the country has a primary fiscal surplus (balance, without interest payments), targeted at 3.1 per cent of GDP for this year. Thus Brazil's fiscal deficit of 8 per cent of GDP last year is entirely explained by interest payments. Its difficulty, however, is that the cost of 70 per cent of its domestic debt is determined by the floating interest rate.

According to J.P. Morgan, at an interest rate of 30 per cent and an exchange rate of R\$3 to the dollar, the costs of debt service become a horrifying 17 per cent of GDP.

So high interest rates are themselves the chief cause of the loss of confidence in domestic monetary stability that they are expected to cure. Worse, if the impact of high interest rates on the economy is as bad as that, even the primary budget surplus is likely to disappear, as revenue contracts and spending on goods and services rises. This then is a true vicious circle. Brazil is trying to restore confidence with policies that seem bound first to undermine it.

Are there less economically damaging and more effective alternatives? The answer depends on what determines that elusive asset, confidence. If it is true that - for all but the biggest advanced economies - suffering is the only route to the market's heart, then there can indeed be no orthodox alternative. Confronted by a market panic and lacking access to sufficient foreign currency resources to halt the downward currency spiral, the country has to embrace the pain. But is this really the best the world can recommend? And, if it is, how long will it be able to sustain the orthodoxy it proclaims?

IMF-Supported Programs in Indonesia, Korea and Thailand: a Preliminary Assessment, January 1999; "Brazil Memorandum of Economic Policies, March 5 1999. Both available via <http://www.imf.org>

Martin Wolf ft.com

PERSONAL VIEW JAMES A. HARMON

Rule and prosper

Crisis-hit developing countries need to adopt and respect the rule of law if they want to attract private capital from abroad

If there is one thing that we have learned from the financial crisis in the developing world it is that a global economy requires rules of law that are fair and predictable in every country. Countless corporate borrowers from Manila to Moscow have been battered by the global crisis, leaving many insolvent and their foreign creditors shell-shocked, not knowing whether they can recover assets in countries where the rule of law is absent. While the crisis has occasioned many calls for a "new financial architecture" and for economic policy changes in emerging markets, the lack of private-sector confidence among foreign investors has been neglected.

Yet this issue is vital. Private credit flows to the developing world have declined precipitously, from \$200bn in 1996 to less than \$20bn projected this year. There can be no real recovery until the fall is reversed. How can it be?

From our experience at the Export-Import Bank of the US, whose mission is to sustain jobs by supporting exports to these challenging markets, it is easy to understand why lenders are unlikely to make loans to companies that, if they default on their debts, will be protected by vague laws or cosy relationships with local courts.

If lenders and investors are so wary - and no one is rushing into crisis-affected countries these days - where will the capital come from to re-start growth? And if growth does not resume, what will happen to hundreds of millions of people whose living standards have plummeted in the last year? We are not talking only about lost fortunes, but lost jobs and lost hope - including jobs in developed countries.

Unlike the industrialised nations, where well-developed bankruptcy laws provide fair protection for creditors and borrowers

alike, many developing countries are without a genuine and predictable rule of law to restructure financially threatened companies. All too often, creditors have no idea how they will fare, because they do not know the rules and often cannot know how they will be implemented. We have attended credit meetings where no balance sheets or financial statements can be produced.

In Indonesia, courts refuse to recognise the concept of acceleration or that swap obligations represent debt. The Philippines' Securities and Exchange Commission's jurisdiction over insolvency undermines protections afforded by Philippine bankruptcy law and principles of due process. In Thailand, some legislators who happen to be major shareholders of insolvent companies oppose enactment of laws to effectively enforce liens. In Russia, legal claims are often simply not recognised by courts. After the crisis hit, new bankruptcy laws were adopted in Thailand and Indonesia, but hopes for improvement were short-lived.

In many emerging markets, international creditors are also treated to the spectacle of preferential and fraudulent transfers of assets from insolvent companies. Creditors lack effective legal recourse, and are unable to get debtors to co-operate in consensual or court-supervised restructurings based on full financial disclosure. This state of affairs, often resulting from cronyism benefiting wealthy, politically connected local businessmen, was easily overlooked during the go-go years of 8 to 10 per cent annual growth. But, when the chips were down - as they have been since east Asian, Russian, and now Brazilian currency devaluations - this cronyism casts a long shadow of uncertainty over foreign lenders.

In short: Capitalism without the rule of law is capricious, dangerous

and not conducive to reasonable risk-taking.

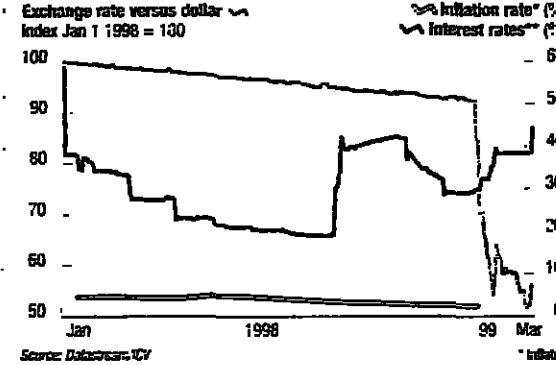
While the United Nations, the International Monetary Fund and others are working to help enact and enforce legal concepts so familiar in industrialised nations, this will take time - time that many developing countries do not have. In the meantime, the IMF, export credit agencies, banks and other sources of private financing must develop incentives for these countries' governments to recognise their obligation to provide a transparent, equitable and predictable legal infrastructure for creditors - and they need to make it work.

One approach would be for developing countries to establish impartial financial restructuring boards, which would allow creditors to voice complaints publicly and seek redress. The IMF could make rescue packages contingent on the creation of such an office. International creditors, including export credit agencies backed by the power of their governments, can make their assistance dependent on governments exercising responsibility to insure fair solutions. The private sector also could make access to capital conditional on such reforms. This would help rebuild confidence in doing business in many emerging markets.

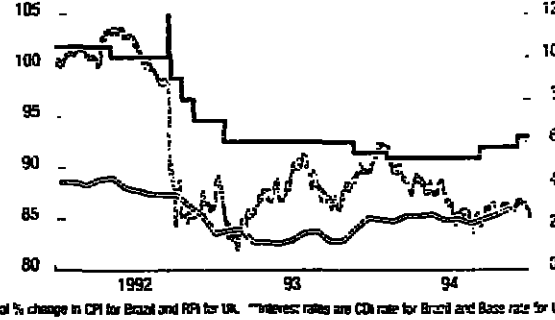
Internationally accepted standards and legal mechanisms for restructurings are essential for lenders, commercial and public, again to provide the massive flows of capital that helped drive growth in many emerging markets in the early 1990s. Without the rule of law, it is unlikely that strong, sustained growth will resume. Without that growth, too many people in developing countries will be unable to resume their own progress from privation to prosperity.

The author is chairman and president, Export-Import Bank of the US

Two responses to devaluation: interest rates up in Brazil...



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LETTERS TO THE EDITOR

Illogical to say non-African world should not intervene in Africa

From Mr John Mbiti.

Sir, Your leader "Africa's poison" (March 3) is, respectfully, wrong to suggest that the non-African world cannot and should not intervene in a complex African problem.

First, Africa's complex problems are in part due to European politics in the 19th century. In this regard, it

would be incongruous to advocate that European countries have no responsibility in Africa. Second, it is somewhat perplexing that, while African problems require uniquely African solutions, Middle Eastern problems do not require uniquely Middle Eastern solutions. If logic be logic, and every region must solve

its own problems, then perhaps the US should withdraw from its important role in eastern Europe. Because, after all, eastern Europeans need an eastern European solution to their problems.

John Mbiti, 414 W 44 Street 1E, New York, NY 10036, US

German company accounts favour caution

From Mr Martin E. Simons.

Sir, Ralph Atkins and Uta Harnischfeger are to be congratulated on their article about Oskar Lafontaine, Germany's finance minister, and his tax plans, and the table showing international corporation tax rates ("Lafontaine fights a rearguard action to defend tax ambitions", March 3). Germany heads the table with rates of between 44 and 57 per cent with the lower range applicable to profit distributors. The UK rate of 31 per cent is one of the lowest.

Those of us who have been examining German pub-

lished accounts have long known that a principal aim is to produce a cautious balance sheet. That is facilitated by tax-allowed heavy depreciation charges, automatic stock and foreign trade debtor write-downs (with the latter representing a form of export subsidy). As a consequence, what would seem to be harsh rates of corporation tax are applied to declared lower profits than is customary in the UK.

Over-prudent accounting tends to create secret reserves year by year, thereby checking the growth of equity reserves, which in

turn jacks up current return on published equity.

Apparent better equity returns linked with tucking away profits can lead to over-investment, which is also encouraged because too many financial analysts ignore some huge in-house pension reserves that are, in effect, loans to the business and should be included with debt when calculating leverage.

Martin E. Simons, 24 Granard Avenue, Putney, London SW15 6BJ, UK

Japanese money supply and deflation

From Mr Divyang Shah.

Sir, You are certainly right to point out the three elements in the Japanese equation: lax monetary and fiscal policy coupled with financial sector reform ("Money for nothing", March 4). However, it is questionable whether an expansion in money supply (via monetisation) will be sufficient to prevent the deflation spiral that has its roots in structural deficiencies.

Monetisation will help increase the lag time of the economy adjusting to excess capacity and excess employment levels. From a theoretical standpoint, any inflation target requires a stable money multiplier, velocity of money and nominal gross domestic product. Given that

the credit creation system has broken down, and uncertainty surrounding private demand, it is even more difficult to aim for an inflation target, let alone a money supply target.

The creation of liquidity without dealing with the financial sector troubles is likely to result in much of this liquidity moving out of Japan and accelerating the pace at which the yen depreciates. While this would help Japan in the medium-term, its impact will be limited as long as the financial sector remains dogged by bad debts on its balance sheets. A more palatable alternative is the purchase of bonds by the Bank of Japan in order to use the proceeds to remove the bad debts from the bal-

ance sheets of the financial sector.

However, dealing with the liquidity issue is easier than undertaking a wholesale restructuring of the banking sector in order to make it more profitable - to which one of the necessary conditions is to reduce the capital of the banking sector.

At present Japan seems unable to take such a bold step and thus the risk is of another stop-gap measure that leaves restructuring a distant prospect for the financial sector.

Divyang Shah, global strategist, IDEA, Lincoln House, 296 Elgin Holborn, London WC1V 7JH, UK

Motor industry is changing

From Ms Nikki Leahy.

Sir, John Kay's comments on the globalisation and scale economies of the motor industry ("Where size isn't everything", March 3) misses several points relating to the changing cost and price structure of vehicle manufacture.

Consolidation within the industry is now leading to a "levelling out" of market share between a larger number of dominant producers - as can be seen in both European Union and North American markets. In future, global distribution networks, rather than global volume capacity, will determine competitive advantage and commercial survival.

Profitability is no longer a result of economies of scale in global production and sourcing but dependant on maximising output to the point optimum with product differentiation, for supplying global market segments, in which no producer occupies a dominant position.

Production break-even can be achieved at lower output volume, provided it is sufficient to recover the additional, specific costs that relate to the particular supply decision. Prices are calculated to maximise total contribution to profit according to percentage market share.

Fragmented global markets will not end the domination of mega-volume producers, but they will end the high-volume capacity and economies of scale advantages that have previously been used to offset the industry's high fixed operational costs.

In future, controlling sales and administration costs, and reducing costs occurring over the customer lifecycle, will be of far greater significance.

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FINANCIAL TIMES

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Wednesday March 10 1999

Nato balancing act in the East

History will be made this Friday when the Atlantic alliance takes in three new members - Poland, the Czech Republic and Hungary - even though they are far from the Atlantic. The signing ceremony at the Truman Library in Independence, Missouri, lifts what one Polish minister called the geopolitical curse on his country of being on the wrong side of the east-west divide in 1945, for which Hungary and Czechoslovakia also had to suffer Soviet military oppression in 1968 and 1969 when they sought to renounce or dilute their membership of the Warsaw Pact.

So this trio of central European countries has cause for celebration at "coming home", and Nato's existing 16 members have reason for satisfaction at the expansion of their alliance, the longest-lasting military pact in modern times. Yet there is a deceptive ease about Nato enlargement that carries risks.

The process of negotiating entry into Nato is nothing like as complicated or costly as the eastward enlargement which the European Union is also pursuing and which will take much longer. From start to finish, the incorporation of the Poles, the Czechs and Hungarians into Nato has taken less than two years, at a cost to Nato of less than \$2bn. Nato has committed itself to keeping its door open to still more members. But there are plenty of potential pitfalls down this road. The biggest of these would be to alienate Russia when it may soon pass into the hands of someone less sympathetic to the west than Boris Yeltsin. Taking Nato right to the borders of Russia will not increase western security if it also fuels Russian resentment. Moscow may one day again be strong enough to threaten the west.

Baltic membership

Nine more countries are knocking at Nato's door. None of them will get an invitation to join from next month's Nato summit in Washington. But this is partly because Nato allies disagree on

the direction of any expansion. France and Italy have put priority on the south - Romania and Slovenia. Other Nato states are cooler on enlargement, but their arms industry is keen on new markets. This is particularly true of the US, which has also made commitments to the Baltic states. New Nato members do not want to be left on the alliance's edge; so Poland, too, backs Baltic membership. Such a prospect brings an allergic reaction from Russia, which says it is flatly opposed to any former part of the Soviet Union joining Nato.

Closer alignment

It is time to take a harder look at the criteria for Nato membership. First, countries should not be encouraged to join Nato long before the EU simply because it is organisationally easier for them to do so. Closer alignment of Nato and EU membership would also make sense if the EU is to take on a defence role, and avoid putting other countries into the category of Turkey, in Nato but outside the EU.

Second, Nato has to weigh its own strategic interest in enlargement. It is increasingly asking its members for the political will and military capacity to take part in crisis management and peace-keeping outside the Nato area. Potential members should be judged by whether they would contribute to these new tasks.

Finally, it would be wise to blur the distinction a bit more between Nato's "ins" and "outs". Obviously, some distinction must remain, if the collective rights and responsibilities of full membership is to mean anything. But Nato has run a very successful Partnership for Peace with many outside countries for the past few years, and the Washington summit is expected to offer applicant countries a new Membership Action Programme to help them get even closer to the alliance.

This might not lessen countries' appetite to become full members of Nato, but it should minimise the creation of new dividing lines across Europe.

D'Alema's dilemmas

The determination of Romano Prodi, Italy's former prime minister, to ensure his country's entry into European economic and monetary union was impressive. Yet doubts remained about how Italy, with its heavy burden of government debt, would cope within a single currency. And already, the country is facing problems in its attempts to keep up with the euro-zone pace.

Output growth in Italy last year was the slowest of all the euro-zone economies, at 1.4 per cent, and most forecasters are predicting that growth this year will not be much higher. There are a number of reasons for this. The Asian crisis hit Italy much harder than many other European countries. The withdrawal of the government's incentives for car purchase is another factor. And the contractionary effects of the pre-Emu budget squeeze are still being felt.

Yet Italy's politicians must surely have hoped that the massive monetary policy boost provided by a fall in short-term interest rates from 9 per cent in 1996 to 3 per cent now would kickstart growth again - as it has done, for example, in Spain. Why is this not happening?

One explanation is that Italy has traditionally been a nation of savers. A large fall in interest rates means that these savers will get a lower income from their investments. The contractionary effect this has could easily outweigh the impact from cheaper borrowing rates.

The counter-argument is that as interest rates have come down, so inflation has fallen, meaning that real returns have not fallen by much. However, the psychological effect of lower nominal rates could still be strong.

Italian business

A more important point is that lower rates should still have a powerful effect on Italian business, which has a relatively high level of indebtedness, much of it short-term. In addition, Italy's household savings ratio has been

falling steadily for some time and is now not greatly out of line with the rest of continental Europe. Perhaps the effects of monetary policy are weaker and take longer to be felt in Italy than, say, in the UK, but there is no reason to think that policy would be ineffective.

Structural problems

The alternative explanation for the puzzle of why falling interest rates have not boosted growth is that Italy's structural problems are constraining the economy's ability to expand. True, change is afoot in Italy's opaque corporate sector, with Olivetti's bid for Telecom Italia likely to prove a watershed.

But in his five months in power, Massimo D'Alema, the prime minister, has failed even to make a start on tackling other obstacles to economic progress. Italy's labour market remains one of the most rigid in Europe. Greater investment in infrastructure is needed, particularly in the south. And Italy's pension system absorbs a huge 15 per cent of gross domestic product, without reform, it will be extremely difficult to bring down the overall level of taxation.

This lack of further structural fiscal reform, together with sluggish output growth, means that Italy's progress in meeting its budget targets could be slow - as the European Commission warned only last month. Although the targets for the general government deficit are being met, this is chiefly because of the effect of lower interest rates on the government finances. The primary surplus (which excludes debt payments) actually slipped back significantly in 1998 from the previous year.

The margin for manoeuvre afforded by low interest rates means that there is an opportunity for the government to make real progress on structural reform. Unfortunately, all the indications are that Mr D'Alema's government will be too weak to take action. It is time for him to prove his critics wrong.

Best of the UK Budget, page 8

The smiling face of Iran

President Khatami has launched a charm offensive in Europe to attract foreign investment into his oil-rich but capital-starved country, say **David Gardner** and **Robin Allen**

Mohammad Khatami, the smiling face of Iran, arrived in Italy yesterday, fresh from winning what was in effect a referendum on his attempts to reform the Islamist revolution in recent elections to town and city councils.

This is the first state visit to a western country by a leader of the Islamic Republic which in 1979 replaced a pro-western monarchy with a fearsome theocracy. It is Mr Khatami's first shot in a charm offensive designed to enhance his and his country's international stature - and above all to break free from continuing US attempts to isolate Iran's oil-rich but capital-starved economy.

Italy is a modest enough beginning for such a campaign. It was chosen because Lamberto Dini, foreign minister, and Romano Prodi, then prime minister, were the first western leaders to visit Tehran last year and demonstrate some understanding of Iran's evolution. But Iranian and western officials say the engagement reformer's ambition should not be underestimated.

"The Iranians see Italy as a bridge to a wider dialogue with the European Union which they expect to consolidate when Mr Khatami follows up his talks in Rome with official visits next month to France and possibly Germany," says one senior European diplomat in Tehran.

There are powerful domestic reasons why Mr Khatami should be seeking dialogue with Europe. Respect abroad is translatable into increased authority at home. Despite his popularity, Mr Khatami is constrained by hardliners who use religious dogma to defend the power and wealth they have built up since the revolution. This is doubly so in a system like Iran's, of competing but fluid power centres, where power flows to where power is perceived to lie. As the leading pro-reform daily Salam observed on Sunday: "The success of the reformers in the local polls will pave the way for Khatami to carry forward his foreign policy: it will help him to act with greater authority."

There are three connected objectives of Mr Khatami's campaign. They are to win western endorsement of his efforts to create accountable government under the rule of law; to foster international acceptance of Iran as a regional power with legitimate security interests in the Middle East and central Asia; and to begin enticing the foreign investment Iran desperately needs to employ its fast-growing population, two-thirds of whom are under 25.

The reformist president, elected by a landslide nearly two years ago, enjoys unquestionable legitimacy among the country's young population. They support Mr Khatami with a fervour bordering on adulation.

The municipal contests of two weeks ago showed that his reform coalition is intact and on the march. Still incomplete results indicate it won around 70 per cent of all seats, sweeping the capital and Isfahan, which rivals Tehran in political ferment.

These were the first municipal polls since the revolution. In fact, they were the first local elections in over 2,500 years of Persian history. More to the point, they mean that supporters of Mr Khatami now have every chance of thrashing the theocrats in next year's elections to the Majlis or parliament - currently a bastion



of resistance to reform - and winning his re-election in 2001.

If by then he has managed to acquire what one senior European official calls "real international standing", it will be very difficult for his opponents to bring him down.

As Mr Dini put it this week: "A new course has been set by President Khatami and he needs and deserves our encouragement. He should feel it is not our intention to isolate Iran or to keep him in a religious ghetto."

The difficulty faced by Iran's hardliners is not only the sheer scale of the two defeats Mr Khatami has inflicted on them. It is that the evolutionary reform offered by the president legitimises the continuity of the Islamic Republic. But while this confers enormous advantage on the reformers, Mr Khatami also faces difficulties of his own.

To begin with, Islamist theocrats still hold many of the country's power levers. It is not Mr Khatami but Iran's supreme leader - Ayatollah Ali Khamenei, who succeeded the revolution's late leader, Ayatollah Khomeini - who controls foreign and defence policy, the intelligence services and judiciary, and about 80 per cent of Iran's economy through revolutionary "foundations" or bonyads.

The shadowy masters of these power centres have every interest in opposing rapprochement

with the west and the open trade and investment which would follow, because that would end their control of a rickety but lucratively rigged economy.

Evidence that the interests of the theocrats are at least as much material as spiritual is that they resorted late last year to the assassination of half a dozen reformist intellectuals the moment the government started

'Iran is not willing to open its books. The US would be among its inquisitors, and Iran will not countenance that'

trying to audit the bonyads, states-within-the-state which monopolise the provision of some 5,000 goods and services. Put another way, for every American like Professor Samuel Huntington of Harvard University, who posits a "clash of civilisations" between the Christian west and militant Islam, there is a well-heeled mullah egging him on.

In its stead, Mr Khatami has proposed a "dialogue of civilisations", which he will begin with

the Vatican tomorrow at an unprecedented meeting with Pope John Paul II. At home, though, theocrats fear Mr Khatami's dialogue will end clerical rule and privilege.

The west, for its part, is anxious about Tehran's apparent attempts to develop nuclear weapons capability with Russian assistance - as Massimo D'Alema, Italy's prime minister, has said he will make clear this week. It is that fear which is fueling the drive for bigger and better sanctions against Iran in the US Congress, few of whose members see any electoral profit in a dialogue with Tehran of any kind.

But with Israel's unacknowledged nuclear arsenal to its west and India's and Pakistan's new nuclear capability to its east, Iran feels it has the right to defend itself. It could push ahead with its weapons programmes unless it feels the west is prepared for genuine co-operation on security in Iran's unstable surroundings.

The nuclear issue and US sanctions on Iran greatly complicate Mr Khatami government's efforts to reform the economy.

And it is not clear that Iran can delay structural reforms for much longer. The currency is sliding, the budget deficit is soaring, and unemployment and inflation are both acute. Iran needs to attract around \$10bn a year in foreign investment to

return to stable annual growth of about 5 per cent. It also needs to reschedule its foreign debt, most of which is short-term.

Of Iran's \$23bn foreign debt, \$11.9bn is short-term. This means that Iran must often resort to refinancing obligations under unfavourable terms, particularly now that oil revenues, which comprise 80 per cent of hard-currency earnings, are low.

"The scale of this foreign debt is not the problem," according to one senior European diplomat. "Compared with Turkey's \$100bn or more and the scale of Iran's resources, its debt could easily be entirely rescheduled and put on a viable basis, if only Iran would take its problem to the Paris Club of OECD governments. But Iran is not willing to open its books. The US would be among its inquisitors, and Iran will not countenance such a prospect."

Moreover, Mr Khatami's campaign to present the smiling face of Iran contrasts strongly, businessmen and bankers in Tehran say, with the fearsome bureaucracy that awaits foreign investors. Last month, for instance, the Majlis passed a budget law which highlights the country's schizophrenia about foreign investment. On the one hand the law, effective from the beginning of the 1999-2000 fiscal year starting on March 21, held out for the first time the prospect of 49 per cent foreign equity partnership in Iran's refineries. But the same budget law proposes to slap an income tax of 50-60 per cent on the salaries of all foreign residents, plus a corporate tax of 30 per cent, payable by foreign companies, on the collective salary of all their foreign employees.

The dysfunctionality of the law betrays Iran's preoccupation with security. Its ostensible purpose is to force foreign companies into three "free trade zones" on islands in the Gulf. "That way," one senior European diplomat says, "Iran's bureaucracy and security apparatus will have foreign businessmen where they can be more easily kept under surveillance."

Even if foreign businessmen find a way round the "free zone" hurdle, they are met by a bureaucratic jungle of officials who are appointed, according to Ali Rashidi, an economist, for "reasons of nepotism and political favouritism rather than on merit."

Bankers complain that simply to get the central bank to confirm buyer letters of credit, a private sector client has to go through no fewer than 23 procedures involving three different government ministries and five separate departments of the central bank.

These include a honeycomb of offices ranging from the secretariat of the foreign exchange market supervision committee, to the foreign exchange policies and regulations department, the international finance department, the general credit agreements department, the foreign exchange control department, and the foreign debt department.

Even under Mr Khatami, therefore, Iran is not for the faint-hearted. Widely known across his country as "the laughing son of the prophet (Mohammed)", in the 18 months since he took office he has set Iran on a course of political devolution and reform.

But there is little to smile about in the obstacles he still faces. To surmount them, he is now seeking support in the west.

OBSERVER

Bonino breaks for the border

The large newspaper advertisements earlier this week left no one in any doubt that Emma Bonino, the European Commissioner responsible for fisheries, consumer policy and humanitarian aid, had launched her campaign to become president of Italy.

But Observer remains puzzled. The Commission has just unveiled new codes of conduct for its members which frown upon activities that might represent a conflict of interest. A Brussels official is swift to catch things up, insisting Bonino isn't really a candidate.

It's all quite simple: because the president of Italy is chosen behind the closed doors of Rome's party headquarters, the "non-candidates" do not go out and campaign. "If there is no election campaign, then there is no conflict between this non-candidature and the code of conduct," a Commission official explains.

As a member of the marginal Radical Party Mrs Bonino stands little chance of being reappointed to her seat in Brussels. So it's only fair she should be allowed to look for a new job.

Barking mad

Those spending watchdogs at the United Nations seem to have

sniffed out a scandal. Namely - the vexed question of whether the UN paid more for a security dog than an under-secretary-general.

A Costa Rican envoy has apparently raised the issue before the main UN budget committee. It's said the dog in question is costing \$150,000 a year, while the impoverished under-secretary-general takes home a mere \$140,000.

But all those officials thinking of demanding a pay rise should take heart. Observer's hounds have been on the trail, and have discovered the canine fee may include a handler. Even so, paying one man and his dog that much really does take the biscuit.

Board games

There's safety in numbers at Credit Suisse. Switzerland's second biggest bank has just set up not one but two new advisory boards to aid its own star-studded group board.

Helmut Kohl, the former German Chancellor, Telecom Italia's Franco Bernabè and Bayer's Manfred Schneider are some of the heavyweight figures invited on to Credit Suisse's 12-strong international advisory board. The new Swiss advisory board is bigger still, with 18 members who will no doubt be wined and dined in return for raising "issues of concern". It's an odd move since

international advisory boards have fallen out of favour as banks have become more cost-conscious. Swiss Bank Corporation scrapped its council of international advisers a couple of years ago because it was worried about conflicts of interest with its investment bank.

SAF Group, parent of Switzerland's national airline, has just set up an advisory board, but at the same time halved the size of its own 19-strong board. Credit Suisse, on the other hand, will continue to have 18 directors on its main board.

That's far too many for effective decision-making. But then cynics might argue that it's Rainer Gut, Credit Suisse's well-connected chairman, and not his board, who has always called the shots.

Kopper bottom

Former Deutsche Bank chairman Hilmar Kopper once made a bit of a gaffe by describing his bank's property-related losses as "peanuts". He's capitalised on the remark ever since. For instance, he recently featured in a Frankfurt Allgemeine Zeitung advert reading the paper while perched atop a railway wagon full of peanuts in Georgia, USA. A reference to him on the internet even refers to his peanut crack as well as giving details of his blood pressure.

But the latter may be set to rise. Kopper, wearing another of

his many corporate hats as chairman of the supervisory board of DaimlerChrysler, is being furiously accused by other supervisory board members of keeping secret details of new contracts entitling main board members to big pay increases and generous stock options. In that context, talk of peanuts just isn't on.

Signing off

At last! The finger of fate has given foreigners living in Japan a helping hand. Foreigners setting up home in Japan have long been required to submit their fingerprints for registration purposes. But now, after 47 years, the government has agreed to revise the rule - and substitute signatures for fingerprints.

The rule has been a bone of contention in Japan as foreigners see it as an infringement of human rights. So much so that in 1992, legislation was revised to stop fingerprinting for those with permanent residency status.

The most recent decision will abolish the requirement for all foreigners, regardless of residency status, and is expected to affect some 600,000 residents.

But there are still some ruffled feathers as many foreigners are obliged to carry alien registration cards at all times. Evidently, foreigners' human rights, like Rome, weren't built in a day.

Financial Times 100 years ago

A Come-down For The El Dorado Of North America
After all the accounts of the fabulous wealth of the Klondike, it is strange to read that money is remarkably tight in Dawson City. Yet this is the statement made by the special correspondent of the Toronto Globe, who adds that 10 per cent per month is quite a common rate of interest, and that 15 per cent is being freely offered, just because the delay in the mails has prevented remittances from reaching the town. We would have imagined that a few of the nuggets about which so much has been written might have saved the situation. It is a sad come-down for the capital of the new El Dorado to have to depend on outside sources for its petty cash.

50 years ago

U.S. Gold Imports
Washington, March 9. South Africa furnished the whole of America's gold imports of 90,283 Troy ounces in the week ended February 16. Department of Commerce statistics disclose. Exports of the metal were 28,500 Troy ounces, all to Poland and Danzig.

THE LEX COLUMN

Coughing up

RJR Nabisco has certainly extracted a puffed-up price for its international tobacco operations. The \$8bn Japan Tobacco is paying equates to 15 times earnings before interest, tax and depreciation - nearly twice what BAT paid for Rothmans two months ago and far higher than the valuation accorded quoted rivals like Imperial or Gallaher. Such largesse can only be explained by the Japanese group's desperation to expand overseas as it loses market share at home.

This coup should see off corporate raider Carl Icahn, who has built a 7.7 per cent stake. It cuts RJR's net debt to \$3bn and paves the way for a separation of the remaining US tobacco and Nabisco food businesses. RJR's 80.6 per cent stake in separately listed Nabisco is worth nearly \$30 a share. On a cautious 12-13 times earnings, the domestic tobacco unit adds another \$13-\$14.

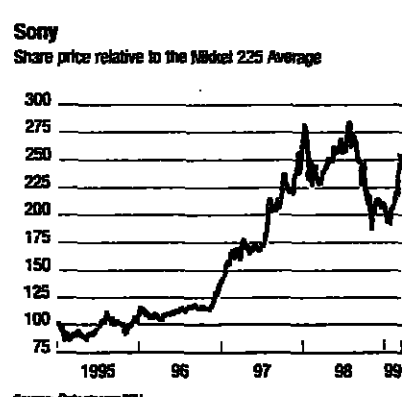
There is a caveat: the existing holding company, which will end up with just the Nabisco stake following the merger, will retain its exposure to tobacco litigation claims. Nevertheless, with RJR's shares at just over \$30, there is substantial value to release.

It might also boost rivals, by creating a pure, quoted US tobacco company as a comparator. At present, the US tobacco operations of Philip Morris and BAT are valued at close to zero by the market.

Telecom Italia/Olivetti

How do you enfranchise non-voting shareholders without making voting shareholders unhappy? Telecom Italia's financiers have devised a clever answer. The simple approach of giving the savings shareholders ordinary shares on a one-to-one basis is unattractive. The savers would be more than happy with such a plan - after all, their shares currently trade at €5.90 compared with €9.70 for the ordinary shares. But ordinary shareholders might feel they were cheated if their voting privileges were diluted without any *quid pro quo*. And there is no point in antagonising the voting shareholders, as they will determine whether Telecom keeps its independence in the face of Olivetti's onslaught.

Hence a scheme being considered by Telecom for giving all shareholders conversion warrants. Collect enough of these



warrants and savings shareholders would be able to convert into voting shares. The twist is that - because each shareholder would probably be given only three warrants but 10 would be needed for conversion - the savings shareholders would have to buy the remaining seven from ordinary investors.

This mechanism could kill two birds with one stone. First, ordinary shareholders would receive cash - perhaps as much as €1 a share. Second, the savers would be enfranchised. That would make Telecom an even bigger mouthful for Olivetti to swallow, as it is not currently bidding for the savers. The only caveat is that this scheme may be too clever by half.

Sony

Sony's restructuring announcement verged at times on the opaque. A 'unified dispersed' management model does not exactly trip off the tongue. But it would be wrong to underestimate the courage of what is being proposed.

The company's overhaul is twofold. First are its efforts to improve profitability in its electronics operation, which has been hit hard by the strength of the yen and savage price erosion, especially in the Japanese market. Certainly the company's third quarter results raised fears over its operating profitability for the fourth quarter, despite the great strength of the Sony brand. The impact of cost-cutting on profitability is tricky to quantify. Reducing headcount by about 10 per cent by the end of March 2003 sounds chunky, but, as

with NEC's recent restructuring announcement, it is unclear how many of these jobs cuts would have come anyway through natural wastage. Reducing Sony's manufacturing facilities from 70 to 55 may turn out to be the more significant measure.

Second, and possibly more radical, is Sony's shift in management and culture. The company stressed the importance of profitability. More outside directors and greater transparency in its head office operations should put pressure on head-quarters personnel to explain how they add value to the sprawling group. Competition is hotting up between Japan's electronics conglomerates keen to demonstrate their shareholder-friendly credentials.

UK Budget

This was a pre-election Budget. And probably the first of three at that, given that the election is unlikely to be held until 2001. As ever Gordon Brown, the chancellor, has been clever politically. The tax cuts announced yesterday kick in modestly: the net tax give-away is only £1.1bn in 1999-2000. But by 2001-2002, the probable election year, the give-away has increased to £3.6bn.

Mr Brown presumably hopes voters will have forgotten the abolition of various tax privileges when they enter the polling booth, but will still be grateful for the lower income tax rates.

Despite the tax cuts, the government's net borrowing still manages to fall a touch in each of the next three years. How come? Reduced interest payments on government debt, a lower contingency reserve and accounting adjustments are the answer. Together they cut government spending by an average of £5bn a year, more than enough to pay for the lower rates of income tax.

These are the sort of conjuring tricks UK chancellors love. Investors, though, will not be fooled by Mr Brown's arithmetic. The fiscal boost may be fairly small beer. But the bond market has already sold off in expectation that the Bank of England will now be less keen on cutting interest rates. A sober assessment is particularly appropriate if one thinks Mr Brown will cast more goodies in the voters' direction in his next two Budgets.

DIPLOMAT WITH REPUTATION FOR INFLUENCING MARKETS MAY DEPART IN RESHUFFLE

Japan's 'Mr Yen' likely to be replaced later this year

By Gillian Tett in Tokyo

Eisuke Sakakibara, Japan's high profile and controversial financial diplomat, is expected to leave his post as vice-minister of finance for international affairs later this year.

Any reshuffle at the ministry will be closely watched in international financial markets. In the two years that Mr Sakakibara, 57, has held the post, he has earned a controversial reputation for making comments that attempt to influence markets. He has become known as "Mr Yen" for his reputed influence over the foreign exchange markets.

Mr Sakakibara has also been more forthright in expressing his views to foreign bankers than most Japanese bureaucrats, partly because of his experience in the US as an academic and economist.

Although some foreign observers have welcomed his openness, it has sparked criticism in the ministry, and some bureaucrats sought to replace him last year. Officials say he is likely to be replaced by his low-profile deputy, Haruhiko Kuroda, 64.

The finance ministry insists that it has taken no binding decisions about the reshuffle. However, its rules for internal job rotation mean that Mr Sakakibara will almost certainly leave, unless Keizo Obuchi, Japan's prime minister, specifically intervenes.

In recent days Mr Sakakibara and the ministry have indicated that they are preparing for a reshuffle. For example, the ministry has recently asked Takatoshi Ito, an economics professor, to become Mr Sakakibara's assistant.

"Mr Sakakibara is more articulate and closer to the hedge funds than many of his predecessors," says Peter Morgan, economist at HSBC Securities.

The markets have seen Mr Sakakibara as a supporter of a "strong yen" policy, although he has modified this stance in recent weeks. As one US hedge fund manager says: "If he goes there is a chance that people could assume that there will be a weaker yen."

Mr Kuroda shares most of Mr Sakakibara's views on the currency and the markets. However, he is a career bureaucrat who has maintained a low profile. A reshuffle could therefore lead to a change in the ministry's market style.

Yoshito Sakakibara (no relation), economist at Goldman Sachs, said:



Eisuke Sakakibara: forthright in expressing his views to foreign bankers

"Mr Sakakibara's departure could reduce the influence that Japanese policymakers are likely to have over the foreign exchange markets."

However, some officials suspect that the planned recruitment of Mr Ito, 48, marks an attempt to maintain the ministry's contacts with foreign bankers and US officials.

Mr Ito is a close ally of Mr Sakakibara, and has also spent many years working in the US, including a stint at the International Monetary Fund. Mr Ito also has links with Lawrence Summers, US deputy Treasury secretary, since both men studied at graduate school in Harvard.

Mr Sakakibara has not yet indicated what post, if any, he may assume next.

In the past, retirees from that position have tended to perform "amakudari", a descent from heaven, into a prestigious job in the financial sector.

Toyoo Gyohten, for example, a former vice-minister, is senior adviser at Bank of Tokyo-Mitsubishi. But in the wake of scandals over excessively close links between financial institutions and the ministry, this practice has been outlawed.

Mr Sakakibara has recently told colleagues that he is considering returning to academic life, possibly at a think-tank or by founding his own research institute. He also has indicated that he would like to work in Australia, partly because he is fond of scuba-diving.

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British adventurer David Hempleman-Adams preparing to leave Eureka in the Arctic yesterday to attempt the first solo and unsupported expedition to the north geomagnetic pole. Picture: PA

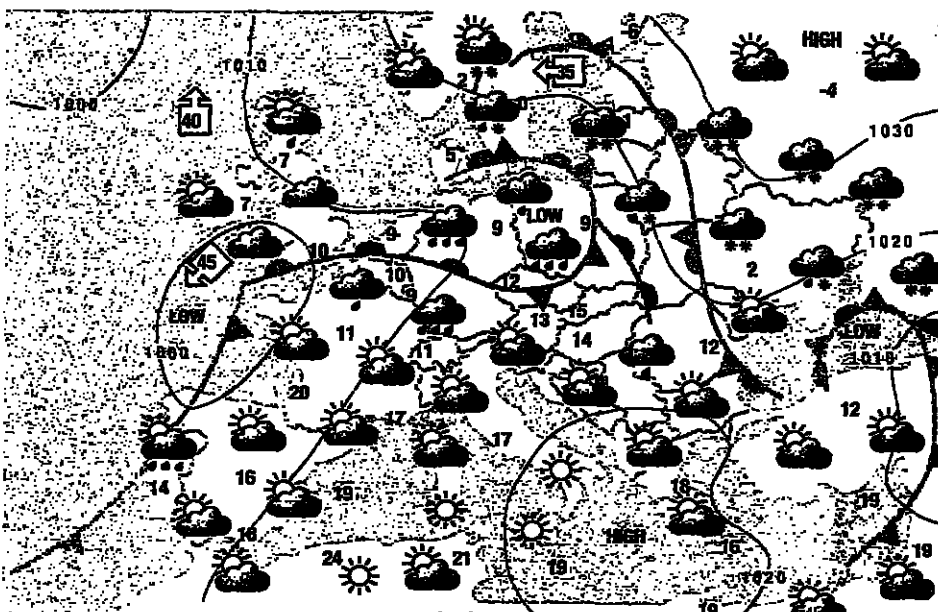
FT WEATHER GUIDE

Europe today

Western regions will be milder but heavy rain will move into western France and the north and west of the Iberian peninsula. Germany and the Low Countries will have sporadic rain but central regions should see some sunshine. It will also be sunny across south-east Europe and the Mediterranean, although a few showers are likely in Turkey. Snow in the north-east will turn to rain as milder air moves in from the west. Scandinavia will stay cold with some heavy snow showers and rain only in south.

Five-day forecast

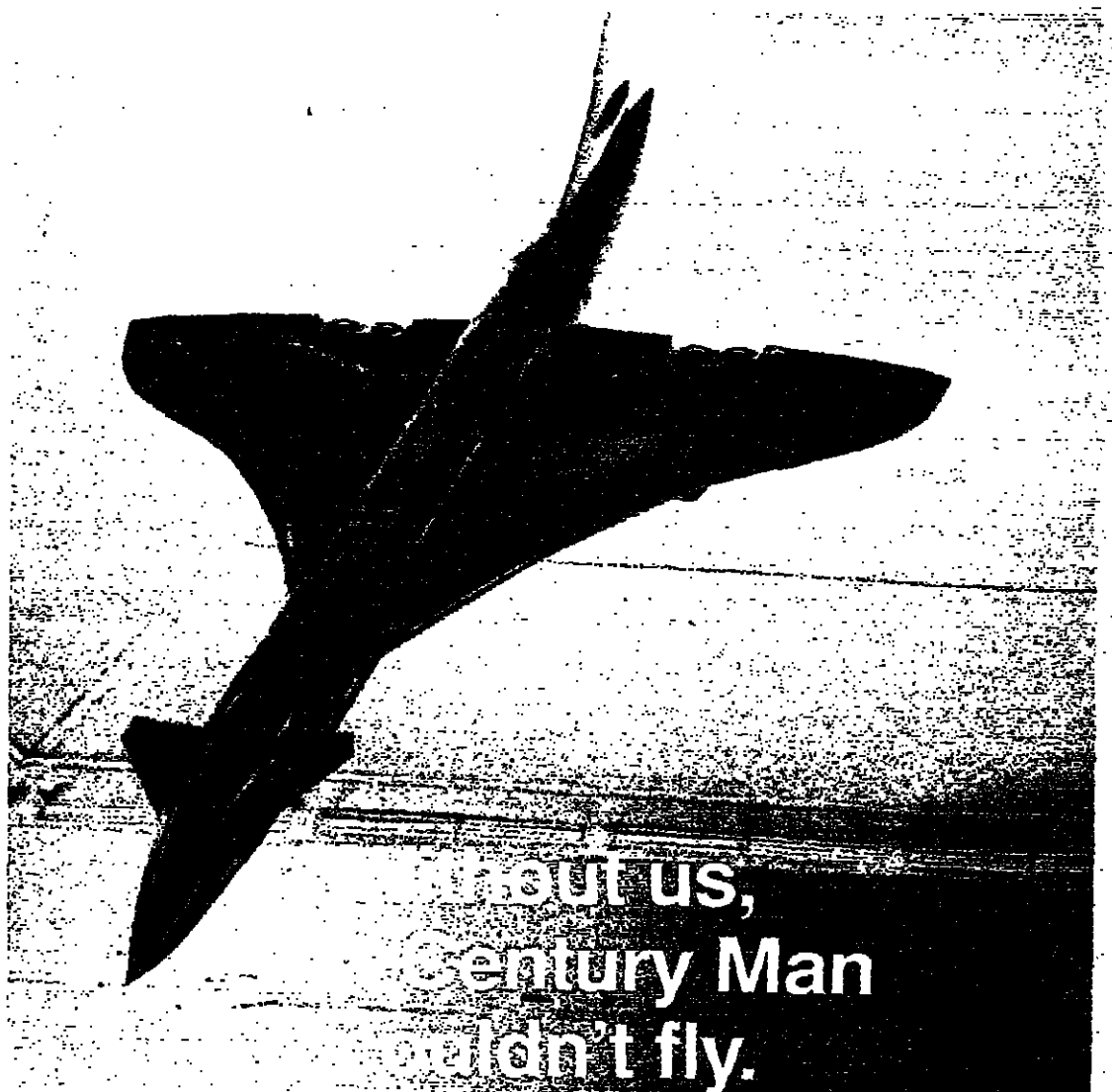
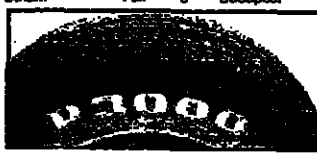
Heavy rain will spread farther east across the Iberian peninsula and western Europe but central and eastern areas will be mostly dry with some sunshine. Most of the Mediterranean will be sunny and warm. Scandinavia and the far north-east will have more snow.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

TODAY'S TEMPERATURES

Abu Dhabi	Sun	25
Accra	Fair	31
Algiers	Fair	24
Amsterdam	Rain	9
Aden	Sun	18
Atlanta	Fair	9
B. Aires	Fair	25
Bham	Fair	8
Bangkok	Sun	35
Barcelona	Fair	17
Batavia	Fair	9
Beijing	Fair	7
Bombay	Sun	18
Buenos Aires	Rain	16
Bogota	Fair	21
Bombay	Sun	32
Brussels	Rain	10
Budapest	Fair	15
Chengdu	drizzle	5
Cairo	Fair	22
Canberra	Fair	27
Cardiff	Shower	8
Cebu	Shower	20
Chicago	Fair	7
Colombo	Rain	10
Dakar	Sun	24
Dallas	Fair	24
Doha	Fair	33
Dubai	Sun	25
Dublin	Fair	7
Dubrovnik	Sun	16
Edinburgh	Shower	17
Faro	Fair	17
Frankfurt	Shower	13
Geneva	Fair	11
Glasgow	Fair	18
Hankow	Fair	7
Hamburg	Shower	6
Helsinki	Shower	6
Hong Kong	Cloudy	18
Honolulu	Fair	24
Islamabad	Sun	11
Jakarta	Thunder	31
Jersey	Rain	9
Johannesburg	Fair	26
Karachi	Sun	28
Kuala Lumpur	Sun	27
L. Angeles	Fair	19
Las Palmas	Fair	21
Lima	Cloudy	28
Lisbon	Shower	14
London	Rain	10
Luoyang	Rain	9
Lyon	Cloudy	17
Madras	Shower	13
Manila	Fair	11
Manila	Fair	7
Melbourne	Shower	25
Mexico City	Fair	27
Miami	Fair	28
Milan	drizzle	13
Montreal	Fair	-2
Moscow	Sun	-4
Mumbai	Fair	13
Nairobi	Fair	27
Nagasaki	Sun	18
Nassau	Sun	25
New York	Fair	4
Nicosia	Fair	16
Osaka	Fair	19
Osaka	drizzle	19
Paris	Rain	11
Perth	Sun	21
Prague	Shower	12
Rangoon	Sun	35
Reykjavik	Snow	1
Rio	Thunder	31
Rome	Fair	17
S. Francisco	Shower	14
Seoul	Fair	9
Singapore	Thunder	33
Stockholm	Snow	0
Strasbourg	Shower	14
Sydney	Sun	26
Taipei	Fair	29
Tel Aviv	Fair	19
Tokyo	Shower	11
Toronto	Fair	-1
Vancouver	Rain	12
Venice	Fair	12
Vienna	Fair	13
Warsaw	Rain	9
Washington	Rain	6
Wellington	Rain	19
Winnipeg	Fair	-3
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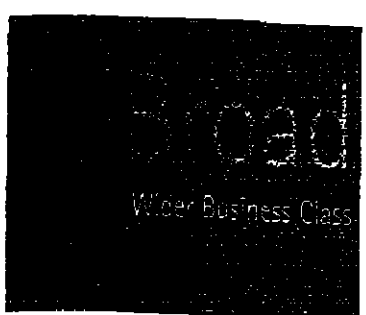
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INSIDE

Bonds overshadow equities

A renewed burst of selling in bond markets overshadowed trading in equities, reversing initial gains in Europe and sparking early profit-taking in the US. A round of unexpectedly solid European economic data was the main focus for bond investors. Page 32

PDVSA's oil dream evaporates

The mood at Petroleos de Venezuela, the state oil company, has been gloomy in recent weeks. The collapse in global oil prices has triggered a series of draconian budget cuts that have plunged the economy into deep recession, while increased intervention by the government of President Hugo Chávez (left) threatens to downsize the company further. Page 17

GM reveals expansion plan

General Motors announced ambitious plans to expand its European sales and market share while recognising demand and pricing in most countries would deteriorate this year. Page 16

Venezuelan coffee industry perks up

As Venezuela's oil industry, the principal source of foreign exchange, is hit by record low petrol prices and production cuts, the Caribbean nation is rediscovering what was once its leading cash crop - coffee. Page 22

Yields on Japanese bonds rise

Yields on long-term Japanese government bonds rose sharply after a warning from the Bank of Japan governor that he expected long-term interest rates to rise again soon. Government officials' suggestions of an imminent tightening of bond trading regulations also damped the bond market. Page 20

Whispers warn of China devaluation

China raised interest rates yesterday for local accounts held in US and Hong Kong dollars, sparking rumours that the renminbi might be devalued. Page 21

Nikkei jumps back above 15,000

Shares in Tokyo closed above 15,000 for the first time in more than three months, buoyed by a surge in the high-tech sector and news of Sony's restructuring. Page 32

China urged to boost gold reserves

China should triple the ratio of gold in the foreign exchange reserves, which have become over-invested in US dollars, according to a recommendation by a senior official at the national gold bureau. The allocation of China's \$145bn foreign exchange reserves, the second largest in the world, has the power to sway currency markets. Page 22

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New York supermarket chain sold for \$1.7bn

By Gordon Cramb in Zaandam

Ahold, the Dutch supermarket group, yesterday built on its US presence with a \$1.75bn agreement to buy Pathmark Stores, which operates 132 outlets in and around New York.

The deal comes barely four months after Ahold completed the \$2.8bn takeover of the Maryland-based Giant Food. Pathmark has a 12 per cent market share in metropolitan New York and a reach which stretches to New Jersey and Pennsylvania. It had sales of some \$3.7bn last year.

This compares with the \$16.2bn in revenues achieved by Ahold's existing US operations. Its presence in the US market was a main contributor to 1998 net profits of the Dutch group, also announced yesterday. These rose 29 per cent to \$1.121bn (\$820m), on revenues ahead 15 per cent to \$15.84bn.

Ahold is to pay \$250m for SMG-II Holdings - the vehicle for a leveraged buy-out of Pathmark carried out in the mid-1980s - and its SMGH subsidiary, making a \$39.25 per share tender offer for SMGH's publicly traded preferred shares.

The rest of the purchase price reflects the assumption of \$1.5bn in Pathmark debt. "Pathmark is a well-run company but under-invested because of a highly leveraged balance sheet," said Cees van der Hoeven, Ahold president.

The Dutch group will pay for the deal from its existing credit facilities, redeeming Pathmark's debt. It added: "Part of the debt restructuring may be funded with newly issued share capital."

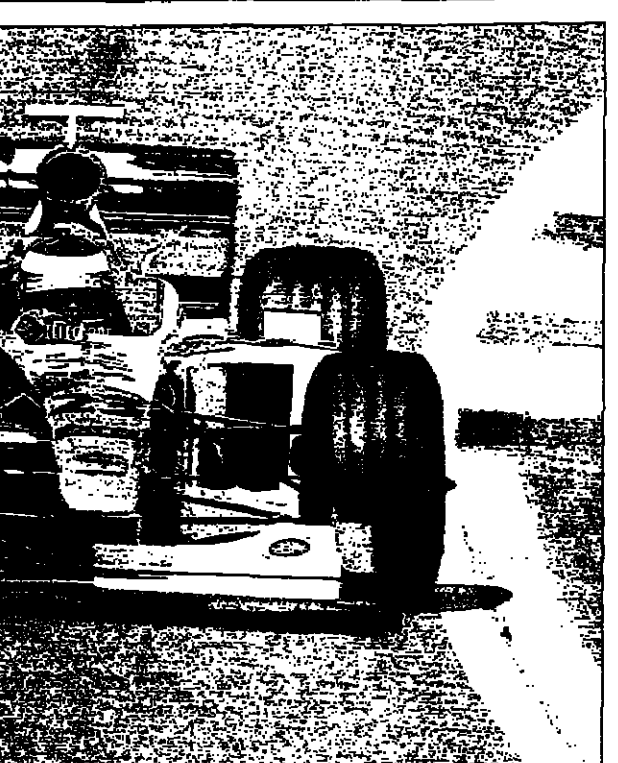
Last September, Ahold issued \$1.275bn in new equity as part of an offering, which also included convertible notes, to fund the purchase of Giant Food. It said at the time that its next takeover would not require a share issue.

Michael Meurs, chief financial officer, said that the Pathmark deal would not be completed until the fourth quarter, and a decision on raising capital would be made only after that. "I think that means we will have kept our promise," he said.

Ahold shares closed 2.3 per cent lower in Amsterdam at \$32.55 (\$35.42) although the group forecast an increase, excluding the effect of currency fluctuations, of 15-20 per cent in earnings per share for this year.

It said the acquisition would have no impact on earnings per share this year or next and be "substantially enhancing" after that. For the first three quarters of 1998, Pathmark had operating earnings of nearly \$87m, indicating an operating margin of 3.5 per cent.

Mr van der Hoeven said the group continued to seek expansion in southern Europe, but bigger markets to the north had not brought acquisition candidates at the right price.



Ricardo Zonta, part of the British American Racing team, at the Australian Grand Prix last week. British American Tobacco claimed its underlying performance was positive despite a fall in profit. Picture: John Marsh

BAT still upbeat despite 16% decline in profits

By David Blackwell in London

British American Tobacco, which next week publishes details of its proposed \$5.38bn (\$8.5bn) takeover of Rothmans International, yesterday insisted that its underlying performance was positive in spite of a 16 per cent fall in profits.

The shares - which shot up to 625p on news of the takeover plan in January - fell 27p to 545p. Analysts suggested that investors were worried by the group's prediction that first-quarter operating profits would be down on the comparable 1997 period, and by the prospect of further litigation in the US.

Pre-tax profits for the 12 months to December 31, excluding the financial services arm that was demerged last autumn, fell from \$275m to \$238m. But the figures were clouded by exceptional, including the payment of a total of \$613m in US tobacco litigation settlements and the receipt of a \$74m tax benefit in Brazil.

At the operating level, profits were down 3 per cent to \$1.55bn on sales of \$17.4bn (\$17.8bn). But the group said that operating profits edged ahead by 1 per cent to \$1.6bn at constant 1997 exchange rates after allowing for restructuring charges.

Martin Broughton, chairman, said it would have been all too easy for management to take its eye off the ball last year given the extent of corporate activity. But the improvement in operating profits at constant exchange rates was in line with its promise when the takeover of Rothmans was announced - "a resilient performance" in the difficult trading conditions that were continuing around the world.

These were most evident in the Asia-Pacific region, where operating profits tumbled 41 per cent to \$182m. Mr Broughton said the settlement of the state Medicaid claims against the industry in the US should have provided greater certainty for both shareholders and employees of the group. But further claims had shaken investor confidence.

Zurich adds a charge, Page 17

Telecom Italia considers new bid defence

By Hugo Dixon in London

Telecom Italia is considering enfranchising its non-voting savings shareholders as part of its defence against Olivetti's \$3.8bn (\$5.7bn) hostile bid. The move, which is likely to be discussed at today's board meeting, could make Telecom a much harder target for Olivetti to swallow. Olivetti's already highly leveraged bid is only pitched at Telecom's ordinary shareholders. The savings shares account for 29 per cent of Telecom's share capital. If they converted to ordinary shares, the cost of mounting a bid would increase by more than 40 per cent.

The savings shares trade at a discount of more than 40 per cent to the ordinary shares. The discount has widened sharply since Olivetti launched its bid. This is in part because of fears that savings investors will be forced to take non-voting stock in Tecnotel, Olivetti's acquisition vehicle, if its bid succeeds.

The innovative scheme being considered by Telecom would probably involve issuing three conversion warrants to ordinary and savings shareholders. Anybody accumulating 10 of these warrants would be able to convert a savings share into an ordinary one. This would mean that savings investors wishing to convert would have to buy an extra seven warrants in the market from ordinary shareholders.

Before Telecom can announce its scheme, it needs the approval of its board and Consob, the stock market regulatory body. This means an announcement is unlikely after today's board meeting.

Lex, Page 14
Telecom Italia defences, Page 16

And though savings shareholders would have to part with cash, the big discount they currently would vanish.

Telecom is thought to be attracted to this particular mechanism for enfranchising savings shares because it believes it would appeal to both classes of investor and help ward off Olivetti's bid. Ordinary investors would receive cash in exchange for sharing their voting privileges.

The changes to trading hours mean the Sets order book will open one hour earlier, while the Xetra order book will open and close 30 minutes later.



BARRY RILEY

Merrill's brave new world

First the UK, now the world. In 1997 Mercury Asset Management formally published for the first time its views on investment strategy for UK pension fund clients.

Now, as Merrill Lynch Mercury Asset Management, it is expected by its new bosses to acquire global institutional business, in four base currencies anyway, including dollars, yen and euro, as well as sterling.

One response is the latter Investment Strategy & Structure, Global Edition. It represents a sturdy defence of the large, multi-purpose investment house in an age of specialists.

Mercury now runs about \$340bn worldwide, but its core UK pension fund business is under pressure because of poor results against benchmarks. Can it extend the transition from running UK balanced pension funds to becoming a global multi-asset manager?

Some changes are obvious enough. For its global audience MAM has added more asset classes.

Hedge funds, for instance, are noted for their high returns but there are warnings about survivor bias in the performance figures and the hedge funds' lack of resources compared with those of "a large conventional manager".

Low correlation with an expensive stock market might appear a current advantage but investors might wind up buying "noisy cash". The passage of time can also bring new wisdom. In 1997

there was enthusiasm about emerging market equities because of the sheer growth generated by these dynamic economies. But they are now seen as only "often" dynamic, with risks more evident than the rewards.

Mercury's basic concept remains one of defining "safe harbour" assets (often bonds) that match an institution's long-term liabilities but which usually give only low returns.

In practice, higher returning assets can be substituted as long as clients have a long enough time horizon to accept the short-term risks: a 20 per cent standard deviation of annual returns on equities, for instance.

The promotion of equities is less enthusiastic than in the previous edition, though. This may reflect the difference in the global client base, so much more bond-oriented than UK pension funds which typically still have equity exposures of more than 70 per cent.

There are also one or two hints that Mercury is worried about the level of future real returns on equities, although it quotes a consensus expectation of between 5 per cent and 7 per cent.

The competitive challenges to Mercury are clear from the document, which in itself could be seen as a response to the powerful consultants trying to grab control of the central investment decision-making processes and lock money managers away in tiny specialist boxes. The "balanced versus

specialist" debate, observes MAM, is really about the relative ability of investment consultants and investment managers to assemble a talented team.

A multi-asset manager, it adds, can add value outside narrow specialist briefs, and for many institutions can provide "a cost effective solution that does not expose the investor to undue risk".

As for the passive fund managers that are now soaking up business, Mercury points out that although index-tracking may be cheaper, it is not more prudent.

An active manager with an active risk of, say 2.5 per cent, may well add only a tiny increment - perhaps 0.2 per cent - to the overall market risk.

The risk/return ratio is therefore potentially high. But it has to admit that the average active manager will probably underperform in the long run.

Finally, those benchmarks. Historical returns provide only a very weak guide to future performance, MAM says, even if they are nevertheless widely used.

Concepts such as "tracking error" may be useful for checking manager styles but they often have little to do with client financial risk.

Yet in a tough world, a couple of bad years for performance can do serious damage, even to the biggest and most lavishly resourced fund management house.



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COMPANIES & FINANCE: INTERNATIONAL

LATIN AMERICA US INVESTORS SUPPORT SPANISH POWER GROUP'S ATTEMPT TO TAKE CONTROL OF CHILEAN ELECTRICITY DISTRIBUTOR

Endesa gets second bite at Enersis

By Tom Burns in Madrid

Endesa, Spain's leading power group, will have a second opportunity later this month to gain outright control of Enersis of Chile, its main investment target in Latin America, thanks to key support from US institutions that are shareholders of the Santiago-based electricity distributor.

An attempt by the Spanish group to change Enersis' bylaws in order to lift its stake in the utility from 32 per cent to 64 per cent was rejected two weeks ago when an extraordinary general meeting vote fell just one percentage point short of the 75 per cent majority required to change Enersis' statutes.

But in a surprise breakthrough that has enabled Endesa to renew its takeover strategy, Franklin Resources, a US fund that owns 1.5 per cent of Enersis' share capital in the form of American Depositary Receipts traded on the New York Stock Exchange, disclosed to regulatory authorities that its vote in favour of a bylaw change was not properly accounted for in last month's shareholder meeting.

Endesa's \$1.45bn bid for the further 32 per cent of Enersis was backed by eight Chilean pension funds, known as

APFs, which control nearly 30 per cent of the utility between them. However, it apparently failed to gain sufficient support among US funds who hold Enersis ADRs.

The Enersis board yesterday approved a call, tabled by two of the APFs representing 10 per cent of the utility's equity, for a vote on the issue again at a second shareholder meeting for March 29.

Endesa believes, on the basis of the Franklin Resources disclosure and on evidence of the voting intentions of other funds holding Enersis ADRs, that it now has sufficient backing to clinch a statutory change and implement its equity acquisition. Shareholder endorsement for Endesa taking a controlling stake will put Enersis at the centre of an ambitious investment drive by the Spanish group in Latin America.

An immediate consequence will be to block plans by Enersis to sell its 25 per cent stake in the biggest domestic generator, which is called Endesa Chile but which has no relationship with the Spanish group.

Spain's Endesa had vigorously opposed this disposal. The Spanish group plans to co-operate closely with Duke Energy, the US utilities group.

Renault set to buy Romanian carmaker Dacia

By Haig Simonian in Geneva

Renault should next month announce it has reached a milestone in its ambitions to become a more international vehicles group with the acquisition of Dacia, Romania's biggest carmaker.

The deal, expected to be closed on April 13, would give Renault control of the fourth largest vehicles group in central and eastern Europe after Volkswagen's Skoda subsidiary in the Czech Republic and the Fiat and Daewoo operations in Poland.

Dacia, which used to have a licence agreement with Renault, made more than

100,000 vehicles last year. Louis Schweitzer, Renault's chairman, said he saw "no major outstanding issues" to prevent the takeover.

However, he was still waiting for the Romanian parliament to pass new laws granting big foreign investors significant tax and regulatory concessions.

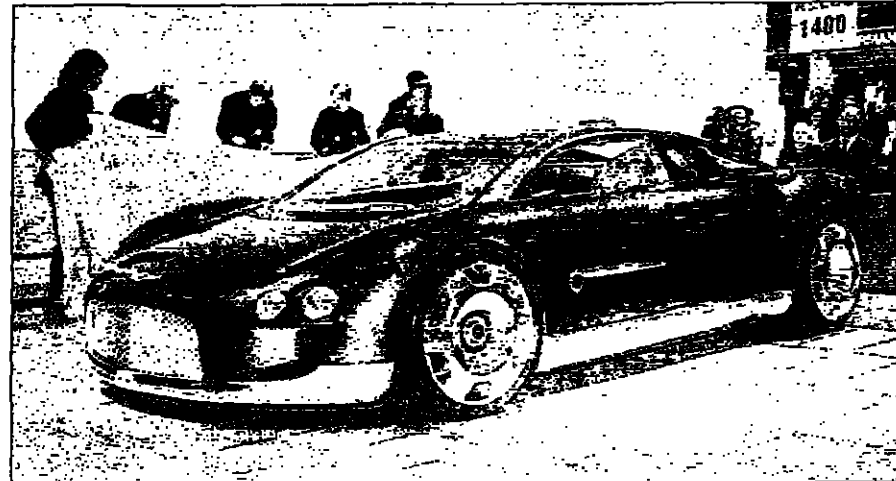
Mr Schweitzer has enthusiastically backed the idea of Renault developing a cheaper, second brand to spearhead expansion in new markets.

"The idea that high quality cars can only be manufactured in western Europe is dead," he said.

However, he would not say how much Renault would be paying for Dacia, which is modestly profitable. Analysts have speculated on a price of about \$30m.

Mr Schweitzer confirmed that Renault remained interested in buying into Nissan Motor, the embattled Japanese carmaker, despite growing signs that DaimlerChrysler may be about to strike a deal.

He declined to give any indication of the state of Renault's negotiations, or whether he thought Renault could beat the much more established negotiating position held by the German-US group.



Sporting chance: Bentley unveils its 16-cylinder 'Humbler' model at the motor show in Geneva. AF

GM reveals expansion plan Fiat to issue €1bn loan

By Haig Simonian in Geneva

General Motors yesterday announced ambitious plans to expand its European sales and market share while recognising demand and pricing in most countries would deteriorate this year.

Michael Burns, president of GM Europe, said he expected European car registrations to drop by between 500,000 and 600,000 compared with 1998.

However, GM was confi-

dent that Opel/Vauxhall and Saab, its European brands, would improve their shares through new models and improved quality and reliability.

Mr Burns admitted that Opel had suffered from image problems, caused partly by inconsistencies in GM's European strategy.

However, he said new models, such as the Zafira people carrier due in May and the latest Astra small family car, would attract

new and previous owners.

Audi, the executive cars subsidiary of the Volkswagen group, confirmed the gloomier outlook among many carmakers for Europe this year.

However, it said it hoped new models would allow it to raise sales despite more difficult circumstances in many countries. Audi said its European market share in the first two months of this year had fallen slightly compared with 1998.

By Paul Betts in Milan

Fiat, the Italian motor manufacturer, yesterday said it would issue a €1bn (\$1.1bn) five-year loan soon to take advantage of favourable market conditions.

But Paolo Fresco, chairman, did not disclose how the group intended to use the new funds, except to say "we have many ways of using them".

The company's Fiat Finance and Trade arm has

given the mandate for the loan to Mediobanca, Deutsche Bank and Morgan Stanley Dean Witter.

Mr Fresco, speaking at the company's centenary celebrations, would not discuss Fiat's merger.

Asked if it was interested in Volvo's truck operations or Scania - the Scandinavian truck manufacturer - Mr Fresco said "never say never".

Giovanni Agnelli, Fiat patriarch and honorary

chairman, said that the group was "still too small" in the current global market and that it was "keeping its eyes open to all opportunities". The Swedish investment group, said yesterday, it was still ready to discuss the future of Scania, the truck and bus maker, with potential buyers, sending Scania shares to a high of \$K21.55 a 2 per cent gain. The shares settled at \$K21.53.

Bayer, BASF show resilience

By Uta Harnischfeger in Frankfurt

Bayer and BASF, the German chemical and pharmaceutical makers, yesterday defied forecasts of disastrous 1998 earnings and proved relatively resilient against the negative effects from the crises in Asia and Latin America.

But despite satisfactory earnings, which may cause some revision of analysts' most pessimistic expectations for 1999, observers said it was too early to give the "all-clear" signal for Germany's chemicals industry.

BASF, based in Ludwigshafen, warned of more trouble to come. "The chemical industry and BASF are expecting 1999 to be a more difficult year, as a result of sustained pressure on prices," it said.

But despite falling 1998 sales - BASF sales were down 3.1 per cent to DM54.07bn from DM55.78bn (€27.5bn, \$30.1bn) and Bayer's sales fell 0.2 per cent to DM54.9bn from DM55bn - both companies increased their profits. BASF's net profit rose 2.7 per cent to DM3.32bn from DM3.24bn, and Bayer's net profit was up 7.3 per cent at DM2.9bn from DM2.9bn in 1997. Both companies' sales were below analysts' expectations, while profits exceeded estimates.

Compared with Bayer, whose activities are almost evenly divided between chemicals and pharmaceuticals, BASF earns far more money from chemicals and related products. As a result it is more sensitive to pressure on selling prices as well as lower petrochemical margins, which have been falling along with oil prices.

"Both results are signs that the chemical industry as a whole was seen in too bad a light," said Jürgen Trojan, at Deutsche Genossenschaftszentrale in Frankfurt. Last week, the chemical employers' association reported that 1998 industry sales fell 1.6 per cent to DM27.4bn, due particularly to lower exports. For the first three months of 1999 the association forecast further falls.

Bayer, based in Leverkusen, sent a clear signal to investors that it perceived its stock as undervalued. It said it would ask shareholders to approve a share buy-back of up to 10 per cent of its shares. "It wants to [show] that its shares are too cheap and that buying its own stock is the best investment it can make," said Mr Trojan. Bayer plans to issue convertible bonds and bond warrants to pay for this.

BASF shares closed down 40 pfennigs at DM31.40, while Bayer closed down 20 pfennigs at DM32.80.

Roche chairman to retire

By William Hall in Zurich

Fritz Gerber, probably Switzerland's most successful business leader of his generation, plans to step down as chairman of Roche in 2001 after more than 20 years and hand over the chairmanship to Franz Humer, Roche's chief executive.

Mr Gerber's decision to announce his retirement ends months of speculation about the succession at Roche, which is still controlled by the same families that founded the business in 1896. Mr Gerber, 69, a lawyer, is credited with reviving the fortunes of Roche, which

was struggling in the 1970s after failing to find a replacement for Valium, the world's first blockbuster drug.

Roche yesterday announced a 3 per cent rise in 1998 net income, to SF4.39bn (\$3bn), and plans to increase its dividend by 5 per cent to SF7.87 a share. Operating profit rose 21 per cent to SF4.35bn on a 31 per cent rise in sales to SF24.7bn. Growth in net income was held back by a 31 per cent drop in non-operating income to SF1.08bn.

Mr Gerber, unlike most of Roche's previous chairmen, did not come from the pharmaceutical industry. He arrived at Roche in 1978

after 20 years at the Zurich Insurance company. He continued to combine the role of chairman of Roche, as well as chairman and chief executive of Roche, until 1995.

Under Mr Gerber, Roche cut costs, cancelled ill-prepared diversification moves, and refocused its research effort.

Over the past decade, its earnings have grown at a compound annual growth rate of 25 per cent and it has built one of the best new drug pipelines in the industry. Analysts are particularly excited by the prospects of Kenical, Roche's new anti-obesity pill, and its anti-influenza drug.

Merger doubts follow Lycos rift

By Richard Waters in New York

The rift between Lycos and its biggest shareholder widened yesterday, casting fresh doubt on the internet media company's plan to merge with Barry Diller's USA Networks.

The last significant internet "portal" company to remain independent of a larger media group, Lycos' shares jumped by 18 per cent on the news, reflecting a belief that it would be forced to renegotiate the merger or seek an alternative partner.

The rift with CMG Information Services - which owns 18.5 per cent of the internet company - came to the fore as David Wetherell, chief executive of CMG, resigned from the Lycos board.

Mr Wetherell was a founding board member of Lycos when it was created in 1996. One of the most successful early investors in internet start-ups, he said he had quit to give himself freedom to pursue better terms for the merger.

The dispute over the value the deal placed on Lycos broke out almost as it was announced and has become a focal point for the debate over the high value Wall Street has put on internet stocks recently.

Mr Diller - one of the most successful US network television executives before branching into home shopping - has argued that most internet companies are overvalued. He said last week he retained "an abiding, if temporarily unfashionable, belief in arithmetic", and predicted that share prices would eventually fall.

However, while supporting the strategy behind the merger with USA Networks, Mr Wetherell has complained that it short-changes Lycos shareholders. As a board member he voted for the deal in February, but then withdrew his support as the stock market marked down the value of Lycos' stock.

Before yesterday's rebound, Lycos' shares had lost nearly 40 per cent of their value since the merger was announced. They were trading at \$99.45 midday yesterday in New York, up \$15.75 on the day but still below the \$137 they reached in early February.

Telecom Italia bolsters defences

By Paul Betts in Milan

Telecom Italia yesterday was further sharpening its defensive strategy against Olivetti's €33bn (\$57.7bn) hostile bid expected to be unveiled today after the boards of Telecom Italia and its 80 per cent cellular subsidiary Telecom Italia Mobile (TIM) met.

TIM yesterday said its board would not only examine today its 1998 results but also call a shareholders meeting. Financial analysts in Milan said this suggested that Telecom Italia and TIM were likely to announce finally their merger plan as part of the former's new industrial strategy but also as a defence against its much smaller Italian telecommunications rival.

Carlo Camerana, a board member of TIM, the Agnelli-

Fiat family holding company and influential Telecom Italia shareholder, did not exclude the possibility of Telecom Italia acquiring directly TIM shares.

Franco Bernabe, Telecom Italia chief executive, had already announced his intention to merge Telecom Italia and TIM, said Mr Camerana. "If it then did not turn out to be a merger but the acquisition of TIM shares, why not," he added.

Other defensive actions under consideration were a possible share buy back, the conversion of Telecom Italia non-voting savings shares into ordinary voting shares, and the payment of a special dividend, banking sources said.

These defences, as well as Mr Bernabe's new industrial strategy, would be backed by the €20bn syndicated loan

which three of Telecom Italia's banking advisers are seeking to put into place. The three advisers are Credit Suisse First Boston, J.P. Morgan and Italy's Imi.

It was also understood to be seeking a preliminary credit assessment on a jumbo loan that would better the A- rating given to Olivetti by Standard & Poor's when it evaluated Olivetti's hostile bid.

Bankers yesterday expected Telecom Italia to command a slightly better rating than its rival. It had about €9bn of debt at the end of last June, while TIM was virtually debt free. A merger of Telecom Italia and TIM would enhance the rating, bankers said.

Innocenzo Cipolletta, director general of Confindustria, Italy's employers' confederation, noted yesterday that indebtedness was also a means of accelerating and strengthening corporate restructuring.

Standard Life Investments, the fund management arm of Europe's largest mutual insurer, yesterday gave a further boost to Telecom Italia by saying Mr Bernabe now had the support of investors holding more than 20 per cent of Telecom Italia shares.

Leon de Jerez, head of European equities at Standard Life, said that 12 per cent of Telecom Italia investors were "definitely committed" adding "but we have more than 20 per cent who are firmly opposed to the bid".

The role of institutional investors is expected to be critical in the ultimate outcome of the takeover battle. Telecom Italia also con-

NEWS DIGEST

ALUMINIUM

Alcan shares fall after warning over low prices

Shares in Alcan fell 4 per cent yesterday after the Canadian aluminium producer warned that its first-quarter profits would be lower than expected due to prevailing low prices of primary metal, weak European markets for fabricated products and the recession in Brazil.

The company said its first-quarter net income would be 50-60 per cent below the 30 US cents per share - before special gains - recorded in the final quarter of 1998. Analysts had expected earnings of 31 US cents. Net income was US\$117m, or 50 cents per share, in the first quarter of 1998.

The company was the second aluminium producer to issue a profit warning for the first quarter. Reynolds Aluminium said last week it would break even in the first three months of 1999, blaming low prices and the devaluation of Brazil's currency. Alcan said total shipments for fabricated products during the quarter were in line with the first quarter last year. Alcan shares were down \$31.70 at C\$39 in morning trading yesterday. Scott Morrison, Toronto

FOOD

Heinz is 'on target'

HJ Heinz said yesterday it was on track to meet expectations for the year, despite an anticipated reduction in fourth-quarter operating income. The company reported third-quarter earnings per share of 60 cents before exceptional items, against 55 cents last time.

Heinz said earnings excluded a restructuring charge for and costs related to the consolidation of its Ore-Ida Foods and Weight Watchers Gourmet Foods units. Including these charges, third-quarter earnings were 33 cents (50 cents). Sales in the third quarter rose from \$2.4bn to \$2.28bn. AFX, Pittsburgh

ENERGY

Fortum falls on low prices

Fortum, one of the largest energy groups in the Nordic region, yesterday blamed lower-than-expected full-year profits on a sharp decline in electricity and crude oil prices. The Finnish company, created by last year's merger of Neste and Imatran Voima (IVO), saw its maiden 12-month profits fall to FM2.21bn (€371m, \$403m) from FM4.9bn on reduced sales of FM50.5bn, compared with proforma turnover of FM60bn in 1997.

Heikki Marttinen, chief executive, warned that Fortum's results would be little improved this year if the market prices for oil and electricity remained at current levels. The newly-merged group still saw underlying operating profit fall from FM4.41bn to FM3.54bn. Mr Marttinen said falling oil prices and excess supplies of hydroelectric power had undermined the results. The figures were also held back by a FM202m charge for Fortum's liability for nuclear waste disposal.

Earnings per share fell from FM2.70 to FM1.62. A dividend of FM0.75 has been proposed. In Helsinki, Fortum shares fell 10 cents to €4.70. Tim Burt, Stockholm

ELECTRICAL MACHINERY

Strong yen hits Omron exports

Omron, the Japanese electrical machinery maker, yesterday issued a profit warning and announced a restructuring plan. Omron, following in the footsteps of Japan's electronic giants such as NEC and Toshiba, said weak global demand and a strong yen hurt exports of its control components. The company said it would cut 2,000 jobs to lower headcount from 18,800 to 16,800 by March 2002 and reduce the number of directors from 30 to less than 10 by July.

The group revised down sales forecast from Y570bn (\$4.7bn) to Y550bn for the year ending March 31, 1999 against last year's sales of Y611.8bn. Omron lowered estimated pre-tax profit before exceptional items from Y14bn to Y4.5bn, down 89 per cent. The group said it expected to post a net profit of Y2bn against the earlier forecast of Y6.7bn and last year's profit of Y18.7bn profit. The stock closed down Y12 at Y1288. Alexandra Nussbaum, Tokyo

MOBILE PHONES

Orange to make Hungary bid

Orange Communications, the UK-based mobile phone operator in which Hutchison Whampoa has a large stake, is planning to extend its overseas presence with a bid for Hungary's third mobile licence. It has formed an alliance with Callahan Associates International of the US, that will be known as the Orange Hungary Consortium, to consider the bid.

The company yesterday refused to indicate the likely value of any bid it might make. There could be substantial competition for the third licence with British Telecommunications, Vodafone/Airtouch and Mannesmann of Germany among the likely contestants. Hungary was the first east European country to license a mobile network. Alan Cane

BANKING

UBS sells Julius Baer stake

UBS has sold its 6.6 per cent voting stake in Julius Baer, Switzerland's biggest independent private bank, for SF123m (\$84m). The family-controlled bank has bought back the 139,973 registered shares from UBS which has owned the stake for many years.

UBS had 11 per cent of Julius Baer's registered shares and following the transaction the family shareholder pool will now control all the registered shares which represent over 50 per cent of the voting stock. UBS has been selling off its non-core interests since last year's merger with Swiss Bank Corporation. It raised SF1.9bn from the sale of Banca della Svizzera Italiana and is expected to raise around SF2.8bn from the sale of its 25 per cent stake in Swiss Life. William Hall, Zurich

CAR AND TRUCK MAKING

Saab talks confirmed

General Motors, the largest car and truck maker, yesterday confirmed that it intended to discuss the acquisition of the outstanding 50 per cent interest in Sweden's Saab Automobile this year. GM bought its existing half-share in Saab from investor, the Swedish investment group controlled by the Wallenberg family, for \$600m in 1989, and has management control.

Under a refinancing deal in 1996, GM received an option to acquire the other 50 per cent between July 1999 and January 2000. If the two parties do not reach agreement on this, investor has the right to sell half its remaining stake in Saab to GM in the year 2000.

Confirmation that GM will consider raising its stake, given at the Geneva Motor Show, by Robert Hendry, the GM executive who heads Saab, Nikki Tait, Chicago

Handwritten signature and date: 10/3/99

TRADEMARKS FINNISH RIVAL RAIISO TAKEN TO COURT OVER SIMILARITY OF PRODUCT NAMES

Unilever acts on cholesterol reducing spread

By John Wilman, Consumer Industries Editor

The race to bring the first cholesterol-reducing spread to European consumers intensified yesterday when one of the two companies involved took the other to court for trademark infringement.

Unilever's Dutch subsidiary started summary proceedings in the district court in The Hague against the makers of Benecol, a spread already on sale in Finland, alleging the name was too

similar to its own Becel brand.

The Anglo-Dutch consumer group, which hopes to launch its own "Flora pro-act" cholesterol-busting spread in Europe within a few weeks, also says plans to court for trademark infringement.

Unilever has built Becel into the market leader in Belgium, Netherlands and Luxembourg over 35 years with a marketing campaign to associate it with heart health.

Benecol is produced by Raisio, the Finnish food and chemicals group, and marketed outside Finland by McNeil Consumer Healthcare, a subsidiary of Johnson & Johnson, the US group.

Both companies are racing to introduce their cholesterol-busting spreads in Europe and North America (where Unilever's will be called Take Control).

The two spreads, both reduce "bad" cholesterol in the bloodstream, with studies showing the risk of coronary heart disease

reduced by up to a fifth.

Benecol was launched in Finland in 1995, where it sells at six times the price of conventional spreads. It needs no approval to be sold in other EU countries, unlike Unilever's product which has to be approved under novel foods legislation introduced by Brussels after Benecol was launched.

The legal case comes as McNeil is close to launching Benecol in several EU markets and could delay its sale in the Benelux countries. Unilever's Flora pro-act

has been approved by the Dutch novel foods regulator, but has yet to clear the 60-day period during which regulators from other EU countries can object.

In the US, Unilever's Take Control is believed to be ahead of Benecol in being approved by the Food and Drug Administration. The two products are being investigated under a new procedure that requires them to demonstrate they are "generally recognised as safe" (GRAS).

Both companies were

invited to submit to the GRAS procedure, which should take no more than 90 days to complete, at the end of last year. Approval under this procedure would not allow the spreads to be promoted as healthy without submitting to the much longer process for vetting health claims.

McNeil believes Benecol will find a ready market despite such restrictions, with widespread awareness among consumers and physicians of the benefits of reducing cholesterol.

Zurich adds \$1bn charge to lift reserves

By William Hall in Zurich and Andrew Bolger in London

Zurich Financial Services, formed from last year's merger of Zurich Insurance and BAT Industries financial services arm, is adding an extra \$1bn to its already announced \$1.4bn restructuring charge, mainly to strengthen its reserves after the acquisition of Eagle Star's underperforming non-life insurance business.

Rolf Hüppi, ZFS's chief executive, said the need for the additional increase in reserves was the main reason the merger had been renegotiated and Zurich Insurance's stake had risen from 55 per cent to 67 per cent of the combined entity. However, at the time of the merger there had not been enough evidence to prove that BAT's Eagle Star insurance business was not adequately reserved.

Hüppi said that the integration of BAT's financial services businesses would inevitably lead to additional job losses and office closures in the UK. To date, the group has announced 1,600 job losses, most of them in the UK. ZFS is also taking an additional \$200m of restructuring charges and writedowns, which now total \$800m.

However, Mr Hüppi insisted the need to boost reserves had not shaken his enthusiasm for the merger. The integration was "mov-

ing faster and proving to be more extensive" than planned, and he expected annual costs savings would increase from the already announced \$400m to \$500m by 2001.

Zurich's decision to boost its restructuring charge by 70 per cent led to a sharp drop in the shares of Allied Zurich and Zurich Allied, the two quoted holding companies of Zurich Financial Services (ZFS). Lewis Phillips of Fox-Pitt, Kelton in London, said the news was "disappointing" but it would not alter his estimate that the group would earn \$2.8bn in 1999 and \$3.3bn in 2000.

When the merger was announced more than a year ago Zurich disclosed a one-time \$1.4bn restructuring charge for 1998. The figure was reconfirmed at last September's half year results and Zurich indicated that \$700m-\$800m, or more than half, would be used to increase underwriting reserves consistent with the existing standards of the Zurich Group, the Swiss partner.

However, the group now plans to double the \$800m it had earmarked for the strengthening of non-life technical reserves to \$1.6bn after a review of all non-life insurance liabilities and recent claims experience. It primarily reflects US and UK asbestos and pollution hazard exposures.

Gucci chief agrees to reopen LVMH talks

By Ian Bickerton in Amsterdam and Alice Rawsthorn in London

Domenico De Sole, president of Gucci, the embattled Italian fashion company, has agreed to reopen negotiations with LVMH, the French luxury goods group, in an attempt to resolve the legal battle between them.

However, Mr De Sole did not appear to have softened his attitude towards LVMH's proposals to forge a trading relationship with Gucci. "We have done a tremendous job of running this company and don't need any help from anyone," he said.

The two groups have been at loggerheads since LVMH, which owns the Givenchy and Louis Vuitton luxury brands, revealed earlier this year that it had stealthily acquired a 34.4 per cent stake in Gucci.

Bernard Arnault, LVMH's chairman, has since striven to persuade Gucci to collaborate with his group. He and Mr De Sole started discussing a standstill agreement on LVMH's rights as a shareholder last month, but failed to agree terms.

The conflict flared up when LVMH proposed appointing a nominee director to Gucci's board. Gucci, advised by Morgan Stanley,

opposed the request and announced it was issuing 20m new shares (the same number as LVMH owns) to a newly created employee share option plan (Esop).

LVMH, advised by Goldman Sachs, asked a Dutch court (Gucci is quoted in Amsterdam) to declare the Esop unlawful. Last week, the court froze the voting rights on both the Esop shares and those of LVMH in a preliminary ruling pending a final hearing due to start on April 22.

It also ordered the two groups to try to resolve their differences by negotiation. LVMH immediately offered to reopen discussions in a letter to Mr De Sole, who accepted that offer in a letter sent yesterday.

So far, neither side shows any sign of moving from its original position. LVMH proposed recommencing negotiations on the basis of a standstill agreement, which was rejected by the Gucci board last month.

Nor is there any sign of compromise by Mr De Sole, who has maintained that LVMH should make a full bid for Gucci, which it would be obliged to do if the company was quoted in London or New York, rather than Amsterdam.

Japan wakes up late to potential of the internet

Sony's surprise revamp is an attempt to scale down manufacturing and join the multimedia age, says Michio Nakamoto

Sony's surprise announcement is a wake-up call for Japan, which has let the explosive growth in internet-based computer services largely pass it by.

The plan Sony presented to reduce its manufacturing capacity and consolidate its electronics businesses to focus on networks aims to fundamentally change the way the group operates.

"It is a fundamental restructuring," emphasises Nobuyuki Idei, president and joint chief executive. "We have to restructure while we can, while we still have profits," he says.

There is a hint of urgency in Mr Idei's tone. That is not surprising, given that Sony is expected to report a loss in the fourth quarter for the first time in four years. In the year to March, consolidated pre-tax income is forecast to fall 31 per cent.

The company's electronics business, its biggest revenue earner, has suffered a plunge in profitability due to weak demand in key markets and falling prices.

But more importantly, Mr Idei is in a hurry to transform Sony into a company that is squarely at the forefront of the multimedia age.

In spite of its vast technological wealth, its software assets, superior marketing expertise and unparalleled

brand recognition, Sony has not been a big beneficiary of the internet age and of networking businesses that are driving the US economy.

"Japan is way behind in the internet and the gap is widening," he warns. There are no businesses comparable to those in the US that are thriving as a result of the internet.

"People like Steve Case at AOL are like rock stars and they make Sony look like part of the establishment," he says somewhat forlornly. If Sony is to break out of that establishment mould and join the new "stars" of the multimedia age, it cannot remain a conventional electronics manufacturer, content to simply manufacture hardware, no matter how advanced the technology.

Through his latest reorganisation, Mr Idei is trying to transform Sony into a company that is more in tune with the new age in which software and the distribution of contents provides the added value that is critical to the success of the hardware.

As such, manufacturing is no longer the critical activity it used to be for Japanese electronics manufacturers. If Mr Idei could have his way, he would get rid of more manufacturing facilities that stand in the way of success



Morio Ohta, Sony chairman (left), and Nobuyuki Idei, announcing that the group will cut 17,000 jobs AP

because they destroy, rather than create, value.

"Sony should not do OEM business. We don't want to be a sub-contractor to computer manufacturers. There are areas (which we don't need), like the manufacturing of CD-ROM drives. It is difficult to quit but it will be done within one or two years," he says.

PlayStation, Sony's phenomenally successful video games machine, succeeded in part because Sony Computer Entertainment - the company that makes it - was able to use Sony's manufacturing facilities rather than build its own, Mr Idei points out.

The added value that Sony needs to offer will come from the synergies of hardware, software and distribution that are increasingly realised in network businesses. Yesterday's reorganisation lays the organisational foundations for that shift.

While the changes in Sony's market environment

are forcing it to transform itself, the pressures the company faces to raise shareholder value are equally strong.

"About 40 per cent of Sony's shareholders are foreigners so we need to be concerned about shareholder value. If our share price is so low, we might be taken over," he warns.

But there are no business models Mr Idei can turn to. Much as he seems to admire AOL and Yahoo!, these companies "are virtual portable companies. They are content aggregators, but we have manufacturing facilities so we are a little different. In that respect, Dell is somewhat more similar to what Sony sees as a model," he says.

Somewhat surprisingly, Mr Idei points out that Softbank, which is closest to providing Sony with a business model, Softbank, founded by Masayoshi Son, its controversial president, has grown at a phenomenal pace through acquisitions of and

investments in internet businesses. It is a shareholder in Yahoo!.

"I am very close in thinking to Son. He always teases me that even though Sony is a big company, we are doing the same thing," Mr Idei laughs.

Like Softbank, which is almost like a holding company, the reorganisation announced yesterday will make Sony headquarters an "active investor", less involved in the day-to-day operations of each of the businesses and more focused on overseeing the group.

Like Mr Son, Mr Idei has clearly been converted to the pursuit of value in the opportunities opened up by the internet. The same can't be said of Japan as a whole. "There is so much potential in Japan. Unless action is taken quickly to meet the challenge of the internet, it will be a tremendous waste," he says.

Sony's latest move is no doubt calculated to avoid that fate.

Branding buoys Andersen Consulting

By Jim Kelly

Andersen Consulting shrugged off any effects of its protracted separation proceedings with its sister firm Arthur Andersen to report a 35 per cent surge in global revenues in 1998 to \$8.3bn.

Andersen Consulting, which became a stand-alone business in 1988, has recorded three years of growth of 25 per cent or more. It will see this success as vindication of its policy of separate development.

"In Europe we have enjoyed our most successful

year yet with revenues exceeding \$3bn for the first time," said Vernon Ellis, managing director for Europe, Middle East, Africa and India.

Andersen Consulting invested heavily in brand building in 1998 with the first redesign of its logo and an aggressive sponsorship campaign of special events. "A powerful brand name is critical if Andersen Consulting is to differentiate itself from competitors in a converging market," said Mr Ellis.

Meanwhile the two sister

firms are appearing before a Paris court of arbitration over their long-running turf war in which both have clashed in the consulting market. Observers expect the court to break their remaining ties - but at a price. Both firms have made substantial claims.

Andersen Consulting's results - at least comparable with leading competitors - will be put forward as evidence that the dispute has not sapped energies or blurred the firm's focus on providing high-level strategic advice for multi-national

companies. Arthur Andersen's results have also remained robust.

Arthur Andersen's UK revenues touched \$245m (\$672m) - up 23 per cent - with more than \$50m of last year's revenues coming from overseas placements of UK staff.

"We increased our revenues by nearly a quarter and recruited over 400 top graduates," said James Hall, UK managing partner.

The firm's revenues grew at 24 per cent in the Americas, 33 per cent in Europe, Middle East, Africa and India, and 1 per cent in Asia

Pacific. It has 65,000 staff compared to 21,000 a decade ago.

Its largest industry practices grew strongly in 1998 - financial services jumping 38 per cent to \$2.5bn, communications 30 per cent to \$1.2bn, and energy up 41 per cent to \$614m. Chemicals and health services, both jumped 42 per cent, the largest increases.

The firm invested \$565m in internal training - up 38 per cent over the previous year - and \$688m in research and development - up by 29 per cent.

PDVSA's oil dream evaporates

Raymond Colfitt examines the critical situation for Venezuelan producers and workers

The mood at Petróleos de Venezuela, the state oil company, has been gloomy in recent weeks. The grand expansion plans to double its output and secure Venezuela's position as one of the world's top three oil producers have all but evaporated.

The collapse in global oil prices has triggered a series of draconian budget cuts that have plunged the economy into deep recession, while increased intervention by President Hugo Chávez's ministers threatens to downsize the company further.

Like other oil companies, PDVSA has seen its revenues plummet over the past 18 months as a result of declining oil prices. But in addition, PDVSA has had to bear the brunt of a \$25,000 barrel per day production cut that Venezuela agreed last year with other leading oil producing countries in an attempt to stem dwindling prices. Crude oil exports could reap as little as \$9.5bn this year, down from more than \$15bn in 1997.

While the oil sector was roaring ahead at a 9.5 per cent growth rate in 1997, it contracted by 1 per cent last year and is expected to fall by another 1-2 per cent this

year. Hundreds of service and supply companies, which had been gearing up to meet the needs of an oil sector - set to expand in the next decade - are now operating at 30 to 50 per cent of their capacity and have fired some 30,000 workers.

"The situation is critical and there appears no immediate hope for a recovery of the public oil sector," says Luis Eduardo Paul, head of Venezuela's association of petroleum companies.

PDVSA is having to cut spending by more than 36 per cent of its 1999 budget, already the smallest in 10 years. Even so, it still has an estimated financing requirement of \$2.4bn. Earlier this week, Roberto Mandini, PDVSA's new president, sought to placate employee concerns, saying there would be no immediate salary reductions. Yet he also announced austerity measures across the board and hinted at personnel reductions. "We will reduce or eliminate all aspects of our administration that do not directly generate results," he said.

Following a big corporate restructuring that began early in 1998 and merged

subsidiaries along functional lines rather than regional lines, about 14,000 of the 42,000 employees are estimated to be surplus. According to internal company proposals, most are to be laid off over the next 10 years.

Yet analysts say it is not only falling oil prices that are behind the most recent cost-cutting measures - it is also the intent of the new government to shrink PDVSA so as to free resources for non-oil economic activities as well as increased social spending.

Mr Chávez has repeatedly accused PDVSA of being a state within a state and lashed out against allegedly lavish spending by its executives. He heightened fears of increased government intervention in PDVSA when he appointed two military officers to run the company's finance/personnel and planning departments. To help plug its growing budget deficit, the government is now said to be demanding increased dividend payments from PDVSA.

"It is being run down. The government is decapitalising the company," says Andrés Sosa Piñeri, former PDVSA president. "If things con-

tinue at this rate, the company is going to lose its competitiveness."

Critics say excessive austerity at PDVSA will not only diminish its production capacity and hence its future fiscal contribution, but could also provoke a flight of human capital.

Yet the government's plans are already facing opposition from business and labour alike. They have warned it not to extend or deepen production cuts at the meeting of the Organisation of Petroleum Exporting Countries later this month. Unemployed oil workers in the port city of Barcelona went on hunger strike last week demanding jobs.

Many Venezuelans acknowledge the country's over-dependence on oil. Yet few see an immediate alternative to it. "The problem is that none of the government's proposed alternatives - tourism, agriculture, gas or petrochemicals - will produce significant returns in the short term," claims Mazhar Al-Sheraidah, a critic of PDVSA's former expansion plans.

See Capital Markets
See Commodities

LEGAL NOTICES

ATY/11/982-76ER

THE EDINBURGH INVESTMENT TRUST PLC

A Notice having been presented to the Court in Scotland on 24 February 1999 by The Edinburgh Investment Trust Public Limited Company (a public company) incorporated under the Companies Act and having its registered office at 1 Charlotte Square, Edinburgh, E12 4DZ, for confirmation of a reduction of its capital, the Court pronounced the undiminished interest on 26 February 1999.

The Lord Ordinary appoints the parties to be interested in the said reduction of capital to be the Edinburgh Investment Trust Public Limited Company and each of The Financial Times and Scotsman newspapers, and appoints all parties claiming an interest to lodge answers thereto, if so advised, within 21 days after such intimation and advertisement.

Russell D. MacKay

All of which intimation is hereby given.

MacKay Murray & Spence
Solicitors for the Petitioners
3 Clerkston Road
Edinburgh EH3 6AQ

CREDIT LYONNAIS

US\$100,000,000

Floating rate notes 2003

The notes will bear interest at 5% per annum for the period 10 March 1999 to 10 September 1999, interest payable on 10 September 1999 will amount to US\$127.78 per US\$100,000 note and US\$2,555.56 per US\$100,000 note.

Global Agency and Trust Services, Citibank, N.A., London 10 March 1999

CITIBANK

Notice of Redenomination to Bondholders of

BANQUE NATIONALE DE PARIS

ITL 150,000,000 Floating Rate Perpetual Step-Up Subordinated Notes

ISIN : XS0086000667

issued under the programme for the issuance of debt instruments

Banque Nationale de Paris has decided to redenominate the above Notes in accordance with Paragraph 1 (Redenomination) of the Schedule to the Pricing Supplement dated April 14, 1998.

Redenomination Date April 17, 1999

Redenomination New minimum denomination will be 1 cent.

Redenomination Method Clients position will be redenominated in book - entry form. There will be no physical exchange of securities.

Redenomination Basis The nominal ITL amount for each Note shall be converted into euros by using the Fixed Conversion Rate and rounding the figure to the nearest cent, with 0.005 euro being rounded upwards.

Cash Compensation There will be no cash compensation.

Redenomination With effect from the Redenomination Date, the day-count fraction referred to in paragraph 31 of the Pricing Supplement will cease to be ACT/360, and shall be on the basis of the actual number of days elapsed divided by the actual number of days in the period from and including the immediately preceding interest payment date to but excluding the next scheduled interest payment date (Actual/Actual).

Any reference to business days in the pricing supplement shall be deemed to refer to a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer system (TARGET) is open.

ISIN Code The ISIN Code of the redenominated Notes shall be XS0095483276.

Dated March 10, 1999
Banque Nationale de Paris (Luxembourg) S.A.
As Redenomination Agent

COMPANIES & FINANCE: UK

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
BBA	Yr to Dec 31 1,211 (1,193)	164 (156.7)	23.7 (24.3)	6.15	May 21	5.6	8.8	8
BAT	Yr to Dec 31 17,376 (17,634)	736 (735.4)	22.17 (22.59)	165	July 1	165	24	26.4
Cairn	Yr to Dec 31 21.8 (21.4)	3.48 (3.39)	18.33 (18.03)	2.825	June 25	1.75	4.5	3
Carnegie	Yr to Dec 31 3.95 (3.85)	7.28 (7.28)	17.61 (17.61)	-	-	-	-	-
Caradon	Yr to Dec 31 1,545 (1,717)	134.1 (129.4)	38.11 (38.11)	6.6	June 1	6.6	9.5	9.5
Carota Virella	Yr to Dec 31 2,063 (2,359)	35.5 (35.5)	3.8 (3.8)	1.5	July 23	1	3	4.7
Country Gardens	Yr to Dec 31 54.1 (48.5)	4.32 (3.51)	10.86 (13.46)	1.45	July 1	1.25	2.15	1.85
CrestCare	Yr to Dec 31 56.1 (50.9)	5.08 (4.43)	2.1 (2.1)	0.73	May 4	0.59	1.06	1
Criterion Props	9 mths to Dec 31 2.87 (5.73)	0.77 (1.37)	7.26 (13.68)	5	Apr 21	3.5	5	6
DRS Data	Yr to Dec 31 6.78 (6.77)	0.026 (0.026)	0.12 (0.02)	-	-	-	-	-
Exponent Ltd	Yr to Dec 31 119.9 (111.4)	11.5 (8.74)	13.35 (10.41)	2.55	Apr 30	2.15	4.5	3.85
Fife	Yr to Dec 31 40.2 (39.3)	4.95 (4.9)	23.78 (8.85)	nil	-	2.6	1.2	3.7
SED Interactive S	Yr to Dec 31 0.964 (3.06)	17.5 (3.88)	16.1 (10.1)	-	-	-	-	-
Hampden	Yr to Dec 31 43.2 (45.2)	1 (2.03)	4.33 (8.81)	2.3	May 14	2.3	2.9	2.9
Hartington Life	Yr to Dec 31 52.6 (63.7)	25.4 (7.16)	14.41 (4.7)	nil	-	nil	nil	nil
Hartington Props	6 mths to Nov 30 58 (52.8)	5.4 (1.3)	0.35 (0.68)	-	-	-	-	-
Indep't Insurance	Yr to Dec 31 457.9 (552.2)	91.6 (82.6)	26.9 (25.7)	2.5	-	2.05	4	3.3
Kerry	Yr to Dec 31 1,733 (1,344)	93.9 (78.6)	43.71 (38.4)	3.5	Apr 1	2.94	5.18	4.4
Laurel Healthcare	Yr to Dec 31 104.8 (109.5)	4.07 (4.59)	18.6 (21)	9.25	May 14	5.75	12.5	8.5
Metall Bulletin	Yr to Dec 31 28.3 (24.6)	6.6 (5.86)	36.8 (39.7)	18.5	Apr 30	16.3	26	23
Norish	Yr to Dec 31 9.95 (9.68)	2.34 (2.87)	19.8 (25.1)	3	Mar 31	3	4	4
Parico	Yr to Dec 31 435.6 (386)	21.7 (21.3)	21.2 (21.1)	7	May 28	6.1	10	8.7
Pennant Int'l	Yr to Dec 31 4.97 (4.36)	0.641 (0.653)	7.41 (7.95)	2.4	Apr 17	-	3.6	-
Pochin	6 mths to Nov 30 19.8 (31.5)	1.33 (1.42)	4.4 (4.8)	1	Apr 19	1	-	3.5
Polytype	Yr to Dec 31 122.2 (119.6)	12.2 (12)	4.99 (4.8)	1.2	Apr 23	1.03	-	3.99
Remedier's (Herry)	Yr to Dec 31 10.1 (6.83)	1.97 (1.52)	21.2 (12.1)	nil	-	4	1	5
Remedier's C	Yr to Dec 31 157.8 (142.3)	18.4 (16)	14.46 (12.43)	2.86	Mar 30	2.38	3.95	3.37
Ryland	Yr to Dec 31 611.4 (499.6)	5.38 (6.08)	12.4 (15.2)	3.2	May 5	2.9	4.7	4.4
Sealor Engineering	Yr to Dec 31 509.6 (479.3)	49.5 (43.1)	11.61 (10.48)	2.92	June 3	2.64	4.69	4.24
Waterford Wood	Yr to Dec 31 575.3 (417.2)	14.9 (12.2)	1.74 (0.88)	1.4	Mar 31	1.25	1.8	1.6
Wilson Connolly	Yr to Dec 31 380.8 (312)	44.5 (38)	15.5 (13.1)	4.45	June 1	4	6.05	5.53
Wyndham Motor	Yr to Dec 31 102.3 (81.5)	1.21 (1.53)	24.33 (33.08)	5	Apr 7	5	8.5	5
Yale Cotto	Yr to Dec 31 532.3 (367.2)	41.3 (38.1)	17.5 (24.4)	6.6	July 5	6	11	10

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional change. After exceptional credit. Special of 4p also declared. Foreign income dividend. Includes FID element. On increased capital. On reduced capital. Comparatives for 12 months to March 31 1998. SUE currency. Comparatives restated. Gross premiums written. Aim stock. Irish currency. Euros. Excludes special. Comparatives for 12 months to April 30 1998.

BUILDING MATERIALS GROUP £134M IN LOSS AFTER EXCEPTIONALS

Caradon starts cost cutting

By Charles Proffitt

Caradon, the building products group, yesterday accelerated its rehabilitation with investors with plans to increase sales and protect profits by cutting both prices and costs.

Jürgen Hintz, who took over as chief executive last May, said: "Too many Caradon businesses have been uncompetitive, losing market share and volume year after year. We aim to rebuild our market shares by offering superior value to customers, underpinned by cost leadership."

Caradon's shares have

sharply underperformed the sector since their peak of 435p five years ago, since when they have fallen steadily. So far this year, though, they have outperformed the market by more than 40 per cent as the group made progress with disposals.

Christopher Grant, an analyst at BT Alex Brown, said Mr Hintz had "done a very good job. Caradon has had a woeful track record in terms of shareholder value since 1993 - it's been destroying value. Hintz is beginning to put things right but it will be long drawn out process. In his initial year he's done

all that can be expected of him."

Caradon yesterday reported a £134.1m pre-tax loss for 1998 against profits of £129m. The loss was after £249.2m of exceptional charges mostly related to disposals where previously written-off goodwill had to be written back. Turnover fell 4 per cent to £1.29bn.

The shares fell 9p to 146p. Since September, the group has sold six businesses for £30m, including its Everest windows operation, and it is in talks to sell another four.

The disposal programme will leave Caradon with 24

businesses in four divisions compared with more than 60 in seven divisions in 1994.

Operating profit fell 7 per cent to £115.3m. The European plumbing and electrical businesses suffered from strong competition, the loss of a main customer and the Asian economic crisis.

Profits from plumbing fell a third to £22.1m and profits from the electrical division fell 4 per cent to £24.3m.

Mr Hintz said these divisions had suffered from unrealistically high pricing. Margins would suffer in the short term but they would be restored by heavy cost cutting.

Rhodia may bid for Albright

By Lucy Smy in London and Tracy Corrigan in New York

Rhodia, the French chemicals group, yesterday confirmed market suspicions that it was interested in bidding for Albright & Wilson.

Just a day after Albemarle, a US rival, bid £400m (\$656m) for the UK chemicals company.

Analysts said a merger with Rhodia, which is 66 per cent owned by Rhone-Poulenc, the life sciences company, would have more obvious product overlaps and potential for cost savings

than with Albemarle.

Albright's main products are surfactants, used in detergents, and phosphate-based chemicals. Rhodia also specialises in these, while Albemarle mostly makes bromide-based chemicals.

Most analysts said they did not expect Rhodia to make an offer before it was clear whether Albright had succeeded in purchasing the phosphates arm of Solvita of

the US. Albright has made a joint bid with PCS, its US partner, for the Solvita business, which are valued at more than \$200m.

Rhodia said it was especially interested in Albright's phosphates business but declined to comment on whether it was also looking at Solvita's phosphates arm.

Albright is advised by Lazard Brothers.

NEWS DIGEST

ENGINEERING

BBA moves towards high-margin products

BBA Group, the engineer, yesterday unveiled plans to increase its revenues from services and high technology materials. Roberto Quarta, chief executive, suggested the group would shift its emphasis away from its automotive division, which is seen as vulnerable to a downturn in world car markets.

Mr Quarta's plans reflect industry worries that engineering groups will find it hard to prosper if they remain suppliers of low-margin commodity products. Last week Cookson, the industrial materials group, said it would focus more on engineering services in an attempt to overcome increased competition.

Mr Quarta said BBA would concentrate on developing two divisions that together account for almost 80 per cent of group sales: aviation, which offers a range of services for corporate jets; and nonwovens, which makes absorbent materials used in products from timber cladding to nappies. "The key for BBA is to become a provider of value-added solutions for our customers," he said.

He said services accounted for 36 per cent of sales, against 15 per cent in 1993. Over the same period the group had increased the proportion of turnover derived from consumer items from 10 to 36 per cent.

His comments came as BBA revealed pre-tax profits for 1998 ahead from £156.7m to £164m on sales up 1.5 per cent at £1.21bn. Michael Peel

Senior hints at non-core sell-off

Senior Engineering Group yesterday hinted that it might sell one of its divisions as part of its plan to become a specialist manufacturer of flexible metal tubes and bellows.

The group said it was focusing on developing its core flexonics businesses, which makes materials capable of withstanding extremes of temperature and acidity. "It follows that anything else is non-core," said Andrew Parrish, chief executive.

His comments raised the prospect that Senior might sell its engineered products and services division, which accounts for 29 per cent of group sales. Mr Parrish described the division as "very much the rump of the old Senior". The engineered products division is growing more slowly and achieving lower profit margins than the group's other businesses. Engineered products made operating profits of £7.4m last year on sales of £151m.

Senior yesterday unveiled 1998 pre-tax profits £6.4m higher at £49.5m, after a goodwill write-off of £1.1m. Sales rose 6.3 per cent to £509.6m. Michael Peel

TRW extends LucasVarity bid

TRW, the US steering systems and spacecraft equipment manufacturer, has extended to March 25 the acceptance period for its £4bn cash offer for LucasVarity, the UK-listed automotive components supplier. TRW said it had control of 44.8 per cent of LucasVarity after receiving acceptances representing 37.41 per cent of the group.

HOUSEHOLD GOODS

Japan hits Waterford Wedgwood

Waterford Wedgwood, the Irish luxury goods company chaired by Tony O'Reilly, yesterday said sluggish demand from Japanese tourists had undermined an otherwise "credible" annual performance.

Richard Barnes, finance director, said: "The slowdown in Japan has hit our domestic business there. Japanese tourists as well as to Europe and the US."

The company said sales in its Wedgwood china and ceramics division had fallen 5 per cent and operating profits 35 per cent as the Asian crisis continued and the strong pound hit exports to continental Europe. However, strong demand in the US helped lift sales in the Waterford crystal business by more than 15 per cent and operating profits by 40 per cent. In 1998 pre-tax profits rose 22 per cent to £14.9m (£20.4m). Part of this increase was the result of a reduced restructuring charge of £24.8m, down from last year's £27.8m. Group turnover grew 38 per cent to £575.3m (£417.2m), of which more than one-fifth came from Rosenthal, the German porcelain business acquired last year. Dan Bilefsky

Coats rejects merger talk

Coats Viyella, the textiles group, has rejected speculation that it might participate in further consolidation in the industry. Michael Ost, chief executive, said: "We have looked in some depth [at the benefits of a deal with another UK clothing manufacturer] and cannot see how it would create shareholder value."

The comments accompanied an 18 per cent fall in 1998 operating profits from continuing operations to £117m. Profits were hardest hit in the UK, where Jaeger, the fashion retail brand, and the home furnishings side were affected by the retail slowdown and price pressures.



BRITISH AMERICAN
TOBACCO

Resilient performance in difficult trading environment

Preliminary results for the year to 31 December

	1998	1997
OPERATING PROFIT PRE-EXCEPTIONALS	£1,550m	£1,591m
PRE-TAX PROFIT	£738m	£875m
EARNINGS PER SHARE	22.2p	26.6p
ADJUSTED EARNINGS PER SHARE	46.1p	49.1p
DIVIDENDS PER SHARE	24.0p	

- Operating profit, at £1,550 million, was 1 per cent higher in local currency before US tobacco settlements costs and a sales tax recovery in Brazil.
- The decline in pre-tax profit and earnings per share was principally due to the initial costs of the US tobacco settlements of £613 million (1997: £258 million).
- Against a global cigarette market which is estimated to have declined, Group volumes for the year were slightly ahead with the growth rate moderated by reduced volumes in the US and Asia-Pacific. There were good performances in Latin America, Europe, Amesca and Canada.
- The Board is recommending a final dividend of 16p, which will be paid on 1 July. At the time the proposed merger with Rothmans was announced, a special interim dividend of 4p for 1999 was also declared, which will be paid on the same date.
- "The focus of our attention in 1999 will be on managing the business in line with our long term strategy in a difficult trading environment. We will also be ensuring that the integration of the Rothmans business, once the necessary shareholder and regulatory approvals have been received, goes as smoothly as possible."

Martin Broughton, Chairman

EURO PRICES

EQUITIES

German jobs figures encourage bourses

EUROPEAN OVERVIEW

By Florian Gilmer

European shares moved higher yesterday encouraged by lower-than-expected German unemployment as well as record French consumer confidence.

All eyes were on the US as markets expected the recent rally on Wall Street to come to an end.

US shares opened generally weaker, but rebounded later on higher productivity figures.

In Europe, however, the markets faced lacklustre sentiment and dwindling liquidity for most of the trading day, as some investors diverted funds to newly upbeat Asian markets.

But most analysts agreed that the drain of European capital was to cause only

limited damage to the eurozone.

"The total holdings of Japanese and other Asian stocks by European investors only amounts to \$150bn, compared with a European-wide market capitalisation of \$8,000bn," said Richard Davidson at Morgan Stanley Dean Witter.

Shares in leisure and entertainment companies put in some of the strongest

performances yesterday. They were responding to continuously high consumer spending.

Telecoms also ended higher on the back of ongoing merger talk in Italian telecom sector.

Shares in Telecom Italia Mobile closed 4.58 per cent higher at €5.29, due to speculation over a possible merger with Telecom Italia.

On a more general note,

inflows to equity mutual funds, which invest in eurozone stocks, has been disappointing, according to a recent report by Salomon Smith Barney.

December's inflows were at a low of \$2bn, compared with a \$6.7bn monthly average in 1998.

January's figure was weaker than expected at \$3.6bn, with the outlook for February's inflows being equally subdued.

The report highlighted a possible supply imbalance in this year's second quarter, as \$34bn new issues were expected to meet with little demand.

The FTSE Eurotop 300 index advanced 6.84 points to 1,259.35, while the FTSE Eurozone 100 increased 23.70 to 2,659.44.

The FTSE Eblot index of

leading stocks in the eurozone settled 1.95 points higher at 1,008.77.

FTSE Actuaries Share Indices

European series

1998-1999

1998-1999

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 9		Currency change on day	Spotted rate	Day's high	Day's low	One month \$/P	Three months \$/P	One year \$/P
Europe								
Switzerland	(Franc)	37.501	-0.240	37.261	37.260	38.123	-5.1	38.408
Czech Rep.	(Koruna)	7.425	-0.008	7.417	7.423	7.437	-0.3	7.460
Denmark	(Krone)	34.000	-0.001	33.999	33.999	33.999	-0.1	33.999
Greece	(Dr)	371.438	-0.002	371.436	371.436	371.436	-0.2	371.436
Italy	(Lira)	200.511	-0.001	200.510	200.510	200.510	-0.1	200.510
Netherlands	(Guilder)	1.836	-0.001	1.835	1.835	1.835	-0.1	1.835
Norway	(Krone)	136.463	-0.001	136.462	136.462	136.462	-0.1	136.462
Poland	(Zloty)	4.000	-0.001	3.999	3.999	3.999	-0.1	3.999
Portugal	(Escudo)	200.511	-0.001	200.510	200.510	200.510	-0.1	200.510
Romania	(Leu)	10.000	-0.001	9.999	9.999	9.999	-0.1	9.999
Slovakia	(Koruna)	100.000	-0.001	99.999	99.999	99.999	-0.1	99.999
Spain	(Ptas)	166.667	-0.001	166.666	166.666	166.666	-0.1	166.666
Sweden	(Krona)	8.658	-0.005	8.653	8.656	8.658	-0.1	8.658
Switzerland	(Franc)	1.736	-0.001	1.735	1.735	1.735	-0.1	1.735
Ukraine	(Hryvnia)	100.000	-0.001	99.999	99.999	99.999	-0.1	99.999
Yugoslavia	(Dinar)	0.6743	-0.0016	0.674	0.6736	0.6757	-0.2	0.6863

COMMODITIES & AGRICULTURE

Increase in demand seen for platinum

By Gillian O'Connor
Mining Correspondent

Platinum group metals are providing one of the few glimmers of light in otherwise depressed metals markets.

Platinum itself had a run-up last month, but the real action has been in two important associated metals, palladium and rhodium, both of which have trebled in price (in US dollar terms) since the start of 1997.

The buoyant markets have also helped share prices of platinum producers. The platinum group metals' strength stems from its use for cleaning up vehicle exhaust emissions in autocatalysts. More stringent standards, particularly in the US, mean demand is set to rise.

Shares of South African platinum producers, whose profitability has been helped by a weaker rand, have been especially buoyant. Impala Platinum, for instance, has risen by about 140 per cent since the start of 1997. Mercury Asset Management now has over 13 per cent of its \$74m (\$19m) Gold & General unit trust invested in South African platinum shares.

Supply of the metals is already tight, particularly in palladium, where Russia is the largest producer. Exports from Norilsk, in Arctic Russia, are plagued by physical and bureaucratic delays, although a new long-term export licence for palladium was last week said to have been agreed.

Worldwide demand for palladium was 8.2m ounces in 1998, about 3m more than new production, according to Johnson Matthey, and supply deficits are expected to continue into 2000. Analysts disagree whether Russia can or will plug the gap.

"Since 1994, Russia has sold about 10m ounces of its stocks to balance increasing demand. However, the size and availability of the remaining stocks remain a state secret and leaves the market in uncertainty," says the latest strategic report from Canadian researchers Metals Economics Group.

Expectations of strong demand have already prompted leading palladium producers to expand production, both through new mines and expansion at existing mines. MEG estimates how these expansion plans will add to supply as follows:

● The 14 major palladium producing mines could increase their capacity from 5.2m ounces in 1998 to 5.6m ounces in 2001. This estimate assumes no increase at Norilsk, whose capacity is left unchanged at 2.6m ounces. Capacity is expected to remain unchanged at Inco's Ontario division and Gold Fields' Northern mine. All others are expected to rise, with notably large capacity increases at North American Palladium's Lac Des Isles Mine (up 120,000 ounces to 200,000 ounces) and BRP/Zimplat's Hartley mine (up 80,000 ounces to 110,000 ounces).

● Six potential new mines, most with start-up dates of 2001 or earlier, could add another 800,000 ounces to annual palladium production. The three largest are: Stillwater's East Boulder (384,000 ounces); Zimplat's Ngezi (134,000); and Amplats' Bafokeng-Rasi-none (100,000).

● Another five projects are at an early stage of exploration. Strategic Report from Metals Economics Group, PO Box 2206, Halifax, Nova Scotia, Canada B3J 3C1

China urged to boost gold reserves

By James Harding in Beijing

China should triple the ratio of gold in the foreign exchange reserves, which have become over-invested in US dollars, according to a recommendation by a senior official at the national gold bureau.

The allocation of China's \$145bn foreign exchange reserves, the second largest in the world, has the power to sway currency markets.

The proposal to boost China's gold reserves bucks the recent trend of disposals of gold holdings by central banks particularly in Europe, but if Beijing takes up the recommendation, it could offer support for flagging international gold prices.

But the suggestion from a gold industry official also underlines how gold has lost some of its shine in China, where public consumption has slumped over the past five years and government demand stagnated.

Liu Shaoen, deputy director of the gold economic development research centre at the ministry of metallurgical industry, warned that excessive US weighting of the foreign exchange reserves could "mean holding national security hostage to the US dollar".

The real extent of Chinese gold holdings is a state secret. According to the published figures, China's holdings in gold have been steady at around 387 tonnes for more than a decade.

That represents a ratio of 2.9 per cent of the foreign exchange reserves, significantly lower than countries such as the US (71 per cent) and France (47 per cent) according to World Gold Council figures.

The published figures are treated with great scepticism by the industry, which estimates the central bank holds perhaps as much as 1,000 tonnes of gold.

Mr Liu, who has submitted his proposal to the managers of China's exchange reserves but has no influence over their decision, says there are doubts over the possible "overvaluation of the US dollar", the volatility of the Japanese yen and the "uncertainties" that surround the infant euro.

Venezuelan coffee industry perks up

The Caribbean country has renewed its focus on the crop, says Raymond Collett

A Venezuela's oil industry, the principal source of foreign exchange, is hit by record low petrol prices and production cuts, the Caribbean nation is rediscovering what was once its leading cash crop - coffee.

For decades, the country's coffee industry had been overshadowed by oil. Farmers abandoned their coffee plantations for more lucrative jobs in the cities, and coffee production plummeted as oil output soared.

But today, a coffee renaissance is under way, as coffee growers are boosting productivity and quality and staging a gradual comeback on international markets.

According to Gustavo Mendoza Sánchez, managing director of Foncafe, the state coffee fund, production for the harvest ending this September is to reach a 50-year high of 1.8m quintals (1.8m 60kg bags). That is up from only 1.2m quintals last year.

The industry's turnaround began in 1992, when Foncafe relinquished its monopoly on distributing coffee and fixing prices. The deregulated sector attracted fresh investment capital. In addition, Foncafe

launched a technical assistance programme aimed at increasing productivity by replacing old coffee bushes and applying new production techniques.

"We are now beginning to see the results of those efforts," says Mr Mendoza.

Unlike other coffee exporters, Venezuela traditionally consumed much of its best coffee domestically. At 780,000 bags a year for a population of 22m, per capita coffee consumption has been among the highest in the world.

Yet, a prolonged economic crisis and slumping consumer demand has forced producers to look for overseas markets.

For example, Antonio Ruiz, a farmer in the western state of Mérida, has become a model for the rest of the industry. Production yields at his Los Cancares plantation reach a record 94 bags a hectare because of high density planting and the frequent pruning of trees.

"I was tired of the local buyers, who paid little and late. Now I have a better income," he says, though he admits Venezuelan coffee producers still have some

way to go in convincing foreign buyers of quality and reliability in their delivery.

"Without the intermediation of Foncafe, we can deal directly with traders and get better deals," says José Yáñez, head of an association of 1,600 coffee producers in Portuguesa.

The incentive to export is apparent. While a 69kg bag of premium washed coffee sells for 47,000 bolivars (\$91.5) in Caracas, it can fetch 62,000 bolivars (\$107.5) in New York with shipping and handling cost of \$5, says Javier Domínguez, a Caracas coffee trader.

However, not everyone has been able to overcome the domestic slump in demand.

Dionisio Gómez, a small producer in Mérida, says he took out a loan to modernise his coffee plantation when interest rates rose dramatic-

ally and prices fell. "Not only am I short of cash to make the improvements that foreign buyers demand, but at 900 bolivars per pound, I'm earning 30 bolivars less than my production cost," he says.

The biggest challenge for Venezuela's coffee producers is accessing the international market and establishing a name for Venezuelan brands, says Mr Domínguez. "We are still at a 10 per cent discount to New York's spot market because our coffee is not known," he says.

There is also the continuous threat from la Broca, an insect that has affected much of neighbouring Colombia's production. It has been brought to Venezuela largely by contraband coffee from Colombia, and Foncafe

Prospect of Opec deal lifts oil prices

MARKETS REPORT

By Robert Cozzine
and Gillian O'Connor

Oil prices firmed yesterday as one of the presumed barriers to another round of Opec production cuts was reported to have been overcome in recent talks between Saudi Arabia and Iran.

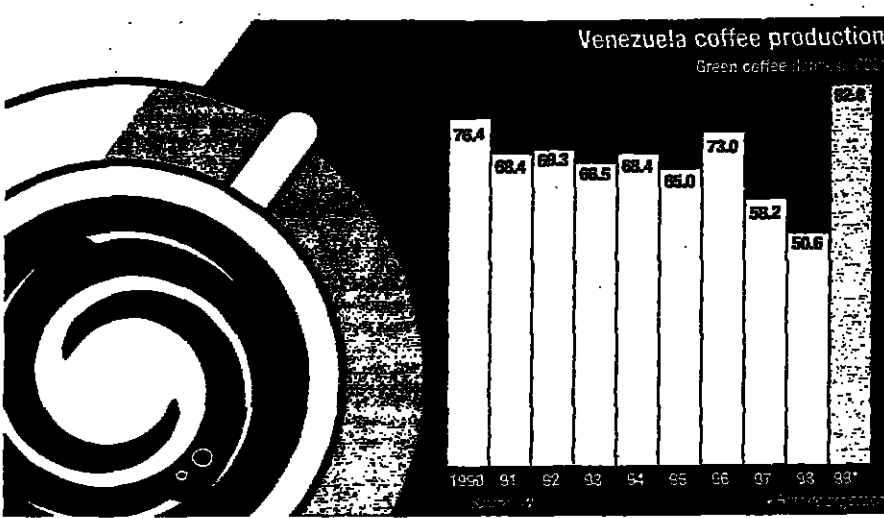
The price of Brent Blend for April delivery was quoted at \$11.83 a barrel in late trading on London's International Petroleum Exchange, 7 cents up on Monday's close.

Early losses were quickly clawed back after a report suggested that Saudi Arabia, Opec's dominant member, had accepted a new basis from which to measure Iran's production cuts.

Most analysts say another big Opec cut will be needed to push prices substantially higher. But as Philip Verleger, a US oil economist, points out in his latest monthly report, history suggests commodity restraint agreements are usually only effective at raising prices when underlying "economic conditions are good. Such a state of affairs does not exist today".

Alcan Aluminium warned yesterday that its first-quarter net income was likely to be 40-50 per cent lower than in the 1998 fourth quarter, but showed no inclination to cut production. Similar stoicism across the industry is the main reason analysts expect the LME price of aluminium to continue weak. So far this year it is down about 8 per cent on its level at the end of 1998.

At current price levels a number of producers are not covering their operating costs. But substantial fixed costs mean that closure could leave them with even higher running losses.



COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY (5 per tonne)

Grade	Sett	Day's
Close	1143-4	1165-5-7.5
Previous	1143-4	1167-5-8
High/Low	1143-4	1170-1183
AM Official	1143-4	1167-5-8
Kerb close	n/a	1164-5
Open int.	n/a	n/a
Total daily turnover	n/a	n/a

■ ALUMINIUM ALLOY (5 per tonne)

Grade	Sett	Day's
Close	1013-8	1027-8
Previous	1013-8	1037-39
High/Low	1013-8	1037-39
AM Official	1013-8	1037-39
Kerb close	n/a	1046-2
Open int.	n/a	1037-40
Total daily turnover	n/a	n/a

■ LEAD (5 per tonne)

Grade	Sett	Day's
Close	495-5-7.5	501-2
Previous	495-5-7.5	505-6
High/Low	495-5-7.5	504-4/4
AM Official	495-5-7.5	504-4-5
Kerb close	n/a	502-3
Open int.	n/a	n/a
Total daily turnover	n/a	n/a

■ NICKEL (5 per tonne)

Grade	Sett	Day's
Close	4830-90	4950-80
Previous	4825-35	4950-800
High/Low	4825-35	4950-800
AM Official	4830-35	4950-80
Kerb close	n/a	4950-10
Open int.	n/a	n/a
Total daily turnover	n/a	n/a

■ ZINC, special high grade (5 per tonne)

Grade	Sett	Day's
Close	1025-6	1035-6
Previous	1025-6	1044-5
High/Low	1025-6	1044-5
AM Official	1024-5	1035-2-5
Kerb close	n/a	1035-3
Open int.	n/a	n/a
Total daily turnover	n/a	n/a

■ COPPER, grade A (5 per tonne)

Grade	Sett	Day's
Close	1375-7.5	1404-5
Previous	1362-43	1380-50.5
High/Low	1362-43	1404-5
AM Official	1372-3	1404-5
Kerb close	n/a	1403-4
Open int.	n/a	n/a
Total daily turnover	n/a	n/a

■ LME Closing 2/5 rate 1.0110

Spot 1.0100 3 mths 1.0133 6 mths 1.0153 9 mths 1.0181

■ HIGH GRADE COPPER (COMEX)

Sett	Day's
Mar	62.30
Apr	62.35
May	62.40
Jun	62.45
Jul	62.50
Aug	62.55
Sep	62.60
Oct	62.65
Nov	62.70
Dec	62.75
Jan	62.80
Feb	62.85
Mar	62.90
Apr	62.95
May	63.00
Jun	63.05
Jul	63.10
Aug	63.15
Sep	63.20
Oct	63.25
Nov	63.30
Dec	63.35
Jan	63.40
Feb	63.45
Mar	63.50
Apr	63.55
May	63.60
Jun	63.65
Jul	63.70
Aug	63.75
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Oct	63.85
Nov	63.90
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Dec	65.75
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Jun	66.65
Jul	66.70
Aug	66.75
Sep	66.80
Oct	66.85
Nov	66.90
Dec	66.95
Jan	67.00
Feb	67.05
Mar	67.10
Apr	67.15
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Sep	67.40
Oct	67.45
Nov	67.50
Dec	67.55
Jan	67.60
Feb	67.65
Mar	67.70
Apr	67.75
May	67.80
Jun	67.85
Jul	67.90
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Sep	68.00
Oct	68.05
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Aug	71.55
Sep	71.60
Oct	71.65
Nov	71.70
Dec	71.75
Jan	71.80
Feb	71.85
Mar	71.90
Apr	71.95
May	72.00
Jun	72.05
Jul	72.10
Aug	72.15
Sep	72.20
Oct	72.25
Nov	72.30
Dec	72.35
Jan	72.40
Feb	72.45
Mar	72.50
Apr	72.55
May	72.60

OFFSHORE AND OVERSEAS

**BERMUDA
(FSA RECOGNISED)**

[illegible]

**BERMUDA
(REGULATED)(*)**

[illegible]

CAYMAN ISLANDS
(REGULATED)^(*)

[illegible]**MFS Meridian Funds - Contd.**[illegible]

GUERNSEY
(FSA RECOGNISED)

[illegible]

Rural Bk of Canada O/S Fd Mgmt Ltd

[illegible]

(FSA RECOGNISED)

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T Global - Contd.

[illegible]

Asset Management Ltd **The**

[illegible]

Golden Gate Fund Plc **Prudential**

[illegible]

Financial Securities Futures Mgmt. Inc.	\$10.77	—	—
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	Net Assets	Rating	Support	Rating	Support	Rating	Support	Rating	Support
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Lot	Market	Selling	Buying	+ or -	Total	Lot	Market	Selling	Buying	+ or -	Total
Price	Price	Price	Price			Price	Price	Price	Price		
1	100	100	100	0	100	1	100	100	100	0	100
2	100	100	100	0	100	2	100	100	100	0	100
3	100	100	100	0	100	3	100	100	100	0	100
4	100	100	100	0	100	4	100	100	100	0	100
5	100	100	100	0	100	5	100	100	100	0	100
6	100	100	100	0	100	6	100	100	100	0	100
7	100	100	100	0	100	7	100	100	100	0	100
8	100	100	100	0	100	8	100	100	100	0	100
9	100	100	100	0	100	9	100	100	100	0	100
10	100	100	100	0	100	10	100	100	100	0	100
11	100	100	100	0	100	11	100	100	100	0	100
12	100	100	100	0	100	12	100	100	100	0	100
13	100	100	100	0	100	13	100	100	100	0	100
14	100	100	100	0	100	14	100	100	100	0	100
15	100	100	100	0	100	15	100	100	100	0	100
16	100	100	100	0	100	16	100	100	100	0	100
17	100	100	100	0	100	17	100	100	100	0	100
18	100	100	100	0	100	18	100	100	100	0	100
19	100	100	100	0	100	19	100	100	100	0	100
20	100	100	100	0	100	20	100	100	100	0	100
21	100	100	100	0	100	21	100	100	100	0	100
22	100	100	100	0	100	22	100	100	100	0	100
23	100	100	100	0	100	23	100	100	100	0	100
24	100	100	100	0	100	24	100	100	100	0	100
25	100	100	100	0	100	25	100	100	100	0	100
26	100	100	100	0	100	26	100	100	100	0	100
27	100	100	100	0	100	27	100	100	100	0	100
28	100	100	100	0	100	28	100	100	100	0	100
29	100	100	100	0	100	29	100	100	100	0	100
30	100	100	100	0	100	30	100	100	100	0	100
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34	100	100	100	0	100	34	100	100	100	0	100
35	100	100	100	0	100	35	100	100	100	0	100
36	100	100	100	0	100	36	100	100	100	0	100

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

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مكتبة ابن خلدون

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INVESTMENT TRUSTS - Continued

	Notes	Price	% Chg
Northern Inc.	5 1/2	428	-1 1/2
Old Dominion SA	5	82 1/2	-1 1/2
Overseas	5	18	-5
Pacific Assets	5 1/2	49 1/2	-1 1/2
Sara & Winston	5	2 1/2	-1 1/2
Sealed Air	5	24 1/2	-1 1/2
Warrick	5	2	-1 1/2
Parsons Int'l	5	283 1/2	-1 1/2
Warrick	5	78	-1 1/2
Parsons European	5	129 1/2	-1 1/2
Parsons Int'l & Gulf	5	127 1/2	-1 1/2
Warrick	5	85	-1 1/2

Perpetua Japan	27	1	3
Wisconsin	41	1	1
Reunited the Gulf Coast	23	1	1

[illegible]

Equity Lateral 20032	290	+3
Lateral low	76	+1

[illegible]

Aberdeen Pfd 200 Cr P1	239 1/4	—	240
Aberforth Splt Inc	75 1/2	75	81

[illegible]

Senior Zero PI	162 1/2	- 1/8	162 3/4
Junior Zero PI	171 1/2	- 1/2	177

United States	100	100	100
Germany	95	95	95
France	90	90	90
Italy	85	85	85
Spain	80	80	80
Japan	75	75	75
United Kingdom	70	70	70
Canada	65	65	65
Sweden	60	60	60
Netherlands	55	55	55
Belgium	50	50	50
Austria	45	45	45
Switzerland	40	40	40
Portugal	35	35	35
Greece	30	30	30
Ireland	25	25	25
Finland	20	20	20
Denmark	15	15	15
Norway	10	10	10
South Korea	5	5	5
China	0	0	0

Split Inc.	120	121 1/2
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$$\text{Dw Prt} = \frac{160}{177\frac{1}{2}} = .902$$

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LONDON STOCK EXCHANGE

Footsie edges higher during chancellor's speech

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

The FTSE 100, delicately poised at 6,219.6 as the chancellor of the exchequer rose to deliver his third Budget speech in Parliament, gradually edged ahead, gaining in confidence as the speech progressed with only a few hiccups spoiling the party.

The effect of a half-point fall in gilts, which were not

pleased by the apparent generosity of the chancellor's package, was offset by the potential boost to consumer

spending that would result from the tax cuts announced.

With the market closing minutes before Gordon Brown announced next year's income tax cut, the index ended 28.9 ahead at 6,237.7.

There were few problems for the market's middle-ranking stocks or the small-caps, both of which ended not far short of their session highs.

The FTSE 250 closed 16.5 firmer at 5,375.7 after a day's high of 5,378.3, while the FTSE SmallCap was finally 7.0 up at 3,223.9.

The market leaders had

made rapid progress at the start of the day, with the FTSE 100 racing up almost 80 points and getting to within 32 points of its previous intra-day high - 6,319.8 - as dealers reacted to Wall Street's overnight strength.

The Dow Jones Industrial Average slipped 9 points, but the S&P 500 hit a record high. And the two leading Asian markets, Tokyo and Hong Kong, also made rapid progress.

Wall Street set an uncertain tone at the start of trading yesterday, only to rally strongly as London closed.

The initial reaction to the

Budget proposals was that the equity market would probably make progress.

The head of market making at one big European investment bank described the Budget as "a bit boring".

He added: "There were no really big shocks. The market feels okay as we speak, but it is near its peak and we will depend on Wall Street."

Another said he saw the Budget as "neutral, as expected. I think we'll go better simply because the Budget is out of the way."

David Butler, head of institutional sales at Teather & Greenwood, said: "The only

surprise is that the chancellor left the drinks sector alone, which has to be bullish. But, truthfully, if Wall Street is down 150 points tonight, then we'll come in lower. If it's 200 points better, we'll come in higher."

Bob Semple, UK equity market strategist at BT Alex Brown, said the Budget was biased towards the consumer and it looked as if it could boost the equity market.

"But there will be a worry over the likely performance of sterling and gilts," he warned.

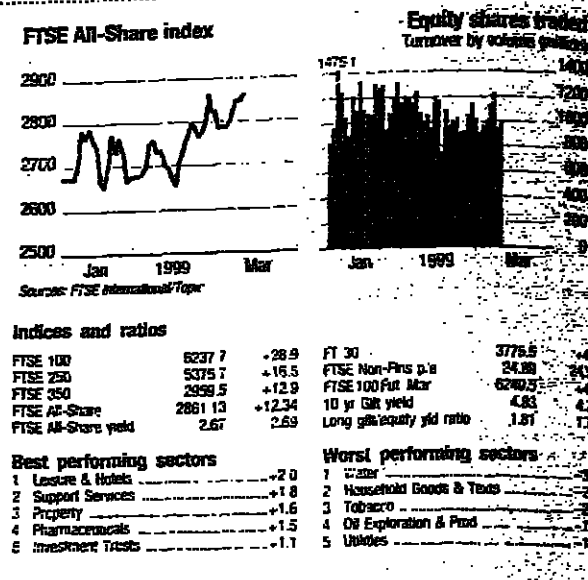
The Budget moves produced plenty of shifts among

the various sectors, with the big drinks companies stabilising as the market registered surprise that the chancellor had left duty on beer, wines and spirits untouched.

But there was a significant sell-off in the water stocks and BAA as the chancellor said he would introduce a competition review.

Computer, IT stocks and Dixons, the high street retailer, were being chased after the proposed "computer for all" measures.

Turnover in equities finished just short of the 1bn mark, reaching 997.7m shares.



Brewer presses its case

COMPANIES REPORT
By Joel Kibzun, Peter John
and Martin Brice

Drinks group South African Breweries yesterday surged through the 500p barrier on its way to securing a place in the FTSE 100 index.

Official dealings in SAB started on Monday, and dealers were confident that the rise in the stock, up 22.4 to 507.4p, would see the company join the premier listing.

The FTSE equity indices committee will meet today for its quarterly meeting at which the new constituents of the leading index will be named. The changes take effect on March 22.

Telecoms group Energis is also expected to join the FTSE 100 rankings. National Grid reduced its holding in the group from just over 74 per cent to 49.5 per cent earlier this year.

ABN Amro reiterated its buy stance on Energis and reiterated its £17.50 share price target. However, profit-taking left the shares trailing 42.2 to £15.55.

National Grid recovered from recent lows to close 8 ahead at 438.7p. Credit Lyonnais recently upgraded stock to "add" from "reduce".

Supporters of Misy's were

also confident the information technology group would return to the Footsie. Active buying helped the shares firm 8 to 649p.

Hopes of a stay of execution for Tomkins faded and the shares gave up 3p to 206.1p, in trade of 6m. The stock is expected to fall out of the FTSE 100, as is Williams, which hardened 4 to 364.4p.

Tobacco company Galaher might also be ejected from the premier listing. The shares fell 15.4 to 414.4p.

Dealers reported aggressive buying of mining group Billiton amid hopes that it will hold on to its place. The

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company has been buying back its own shares through Strand Investment Holdings, but it denied it was the big buyer of stock yesterday.

The shares gained 4.4 to 141.1p in trade of 15m. Albright & Wilson, the phosphates group facing a bid from Albemarle of the US, jumped sharply as the prospect grew that another company would throw its hat into the ring.

The rise of 10.4 to 140p took the shares well above Albemarle's 130p a share offer and reflected a statement by Rhodia of France that it was "reviewing its options" with its advisers.

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Best and worst performing FTSE sectors



highlighting the value gap between the stock and its main US competitors.

Barbour Index, the construction, health and safety data supplier, lifted 7 to 302.1p on news of an acquisition battle for the company. United News & Media and Emap are both reported to be in talks with Barbour. Havas of France is also rumoured to be interested.

United, which was earlier downgraded by Goldman Sachs, dipped 1.2 to 842.2p. Emap, which has an outside chance of joining the Footsie tomorrow, lifted 15 to £14.15.

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under 200,000 shares to take his holding to 6 per cent and deputy managing director Philip Doughty bought 38,000. The company announced a 22 per cent jump in underwriting profits.

London Forfaiting, the trade finance group whose share price was battered by a profit warning in January, recovered 13 to 61.4p following speculation of a takeover at 120p a share.

Nycomed Amersham rose 14 to 47.4p after an upgrade by Morgan Stanley Dean Witter on well-received figures from the health care group on Monday. The US

broker increased its target on the shares from 535p to 600p, raising its earnings per share forecast from 25.5p to 27.6p and reiterated its "strong buy" rating.

Airports operator BAA fell as the Budget included an announcement that John Prescott, the deputy prime minister, would examine competition among UK airports.

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FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LSE) £10 per full index point									
Month	Open	High	Low	Close	Settle	Open	High	Low	Close
Mar	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Apr	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
May	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Jun	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Jul	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Aug	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Sep	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Oct	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Nov	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Dec	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7

FTSE 250 INDEX FUTURES (LSE) £10 per full index point									
Month	Open	High	Low	Close	Settle	Open	High	Low	Close
Mar	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Apr	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
May	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Jun	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Jul	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Aug	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Sep	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Oct	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Nov	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7
Dec	5370.0	5390.0	5350.0	5375.7	5375.7	5370.0	5390.0	5350.0	5375.7

FTSE 100 INDEX OPTIONS (LSE) £10 per full index point									
Month	Open	High	Low	Close	Settle	Open	High	Low	Close
Mar	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Apr	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
May	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Jun	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Jul	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Aug	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Sep	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Oct	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Nov	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7
Dec	6220.0	6240.0	6210.0	6237.7	6237.7	6220.0	6240.0	6210.0	6237.7

LONDON RECENT ISSUES: EQUITIES									
Issue	Amount	Price	Yield	Dividend	Dividend Yield	Dividend	Dividend Yield	Dividend	Dividend Yield
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100
BP	100	100	100	100	100	100	100	100	100

The UK Series				
Net open	Net close	P/E ratio	Net adj. share	Total market
2,27	152	26.63	35.38	2777.70
2,36	157	27.60	35.38	2777.70
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2,36	157	27.60	35.38	2777.70

4 pm close March 9

NEW YORK STOCK EXCHANGE PRICES

IN.SECTS (Pan European Sector Indices from EuroBench®)									
The IN.SECTS - pan European equity sector indices from EuroBench® - contain only those listed stocks that show strong sectoral performance in their performance. Therefore, the indices really represent the core sector trend. Using the correlation of each component with the sector trend to the correlation, an even weighting is achieved (excluding market fluctuations while offering the best sector weighting available). (Values presented with % in brackets)									
Sector	Index	2007	2008	2009	2010	2011	2012	2013	2014
Auto	Auto	100	100	100	100	100	100	100	100
Chem	Chem	100	100	100	100	100	100	100	100
Comm	Comm	100	100	100	100	100	100	100	100
Def	Def	100	100	100	100	100	100	100	100
Dis	Dis	100	100	100	100	100	100	100	100
En	En	100	100	100	100	100	100	100	100
Eq	Eq	100	100	100	100	100	100	100	100
Fin	Fin	100	100	100	100	100	100	100	100
Food	Food	100	100	100	100	100	100	100	100
Health	Health	100	100	100	100	100	100	100	100
Ind	Ind	100	100	100	100	100	100	100	100
Inf	Inf	100	100	100	100	100	100	100	100
Int	Int	100	100	100	100	100	100	100	100
Med	Med	100	100	100	100	100	100	100	100
Met	Met	100	100	100	100	100	100	100	100
Oil	Oil	100	100	100	100	100	100	100	100
Phar	Phar	100	100	100	100	100	100	100	100
Real	Real	100	100	100	100	100	100	100	100
Sec	Sec	100	100	100	100	100	100	100	100
Tele	Tele	100	100	100	100	100	100	100	100
Util	Util	100	100	100	100	100	100	100	100
Wor	Wor	100	100	100	100	100	100	100	100
Yac	Yac	100	100	100	100	100	100	100	100

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GLOBAL EQUITY MARKETS

US INDICES

Year Jones	Mar 8	Mar 5	Mar 4	105999 Low	Since completion High
Industries	9727.81	9736.08	9487.40	9736.08 (9710.98)	9736.08 41.22
Home Bonds	104.64	104.36	104.05	104.36 (102.69)	104.36 87.02
USair	3286.40	3312.78	3265.18	3265.18 (3159.26)	3265.18 54.98
Telecom	299.09	301.51	297.11	301.51 (297.09)	301.51 18.00
Oil	6923.29	6923.29	6923.29	6923.29 (6870.99)	6923.29 15.33
Oil and Day's High	6923.29	6923.29	6923.29	6923.29 (6870.99)	6923.29 15.33
Oil and Day's Low	6923.29	6923.29	6923.29	6923.29 (6870.99)	6923.29 15.33
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Oil and Day's Low	6923.29	6923.29	6923.29	6923.29 (6870.99)	6923.29 15.33
Oil and Day's High	6923.29	6923.29	6923.29	6923.29 (68	

■ RATIOS				
Dow Jones Ind. Div. Yield	Mar 5 1.59	Feb 26 1.67	Feb 19 1.63	Year ago
S & P Ind. Div. yield	Mar 3 1.17	Feb 24 1.14	Feb 17 1.19	Year ago
S & P Ind. P/E ratio	38.32	38.67	37.72	28.26

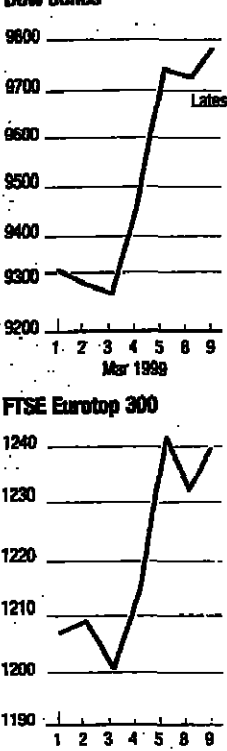
US DATA

MARKET ACTIVITY									
Volume (millions)				NYSE					
	Mar 8	Mar 5	Mar 4		Mar 8	Mar 5	Mar 4		
NYSE	714,630	634,950	774,882	Issues Traded	3,527	3,050	3,485		
				1,856	1,569	2,065	1,710		
Amex	22,942	26,838	24,716	Increased	90	59	60		
NASDAQ	578,885	584,844	687,854	New Highs	81	83	288		
				Low Lows	55	40	86		
NYSE TRADING ACTIVITY									
				Volume = 714,630 Shares					
IN ACTIVE STOCKS				IN BUDGET MOVES					
Company	Stocks traded	Close price	Day's change	Industry	Close price	Day's change	Day's % change		
Columbia	20,030,000	34 1/4	+	Up					
Continental	10,955,100	96 1/4	+	Automated	15 1/2	+	+12 1/2		
IBM	8,871,400	162	-1 1/8	Computer	19	24	+12 1/2		
AT&T	7,525,800	98 1/4	+	Capital	52	+5 1/4	+12 1/2		
IBM	6,804,500	56 1/4	-3 1/8	Auto	30 1/4	+4	+13 1/2		
General Electric	6,750,000	56 1/4	-3 1/8	Software	10 1/4	+	+10 1/2		
Lucent Tech	5,833,400	10 1/4	+	Selection	47 1/2	+4 1/2	+10 1/2		
Chrysler	5,776,000	62 1/4	+	Books					
IBM	5,750,000	162	-1 1/8	Public	23 1/2	-1 1/4	-6 1/2		
General Motors	4,567,000	39 1/4	+	Unions	13 1/2	-1	-6 1/2		

NASDAQ TRADING ACTIVITY				Volume 376,865,000			
ACTIVE STOCKS				BIGGEST MOVERS			
Monday	Stocks traded	Close price	Day's change	Monday	Close price	Day's change	Day's range
DellComp	45,558,800	45%	+2%	Ugc	200%	-37%	11.0

Model	28,642,000	23%	+3%	new	40%	+47%	+31%
Oracle	19,616,900	30%	+3%	CIET	20%	+40%	+23%
Intel	18,308,800	119%	+5%	AdSenseRef	25%	+1%	+22.0
CloudSys	13,698,700	104%	+3%	CloudSys	22	+3%	+17.7
CloudSys	11,486,000	150	+4%	Platonic	38%	+5%	+17.3
CloudSys	11,025,700	25%	+2%				
ParasolT	10,937,500	17%	+2%				
CloudSys	10,781,800	85%	+5%				
LevOne	9,198,500	47%	+2%				

Dow Jones



JAPAN

	Mar		Mar		1998/99		Size comparison	
	8	5	8	5	High	Low	High	Low
Miles 235	15066.70	14749.05	14849.00		17294.3	12680	30975.3	65.25
Day's high 15066.70	Day's low 14642.17							
■ TOKYO TRADING ACTIVITY					Volume : 584,440,000 (shares)			
■ ACTIVE STOCKS					■ BIGGEST MOVERS			
Tuesday	Stocks	Index	Close	Day's change	Tuesday	Close	Day's change	Day's % change
Tokaido	17,299,000	813	+38		Uye	107	+18	+17.8
Nippon	14,336,000	819	+3		Uye	107	+18	+17.8
Sanki	11,076,000	220	+3		Sanyo	125	+14	+11.5
Sumitomo	10,623,000	122	+7		Nippon	142	+18	+12.9
Sanwa	8,459,000	81	+1					
Haneda	7,655,000	808	+41		Daiwa			
Mitsubishi	6,989,000	839	-1		Daisho	718	-14	-2.0
Industrial	6,714,000	1000	+10		Daisho	270	-15	-5.3
Mizuho	6,017,000	83	+2		Daisho	222	-27	-4.8
Resc	5,144,000	1270	+45		Zenit	278	-14	-4.8

GERMA[illegible]FRANCE

	Mar 9	Mar 8	5 Yr	1999/99	Size	Comp Low	Low
CAC 40	47180.8	47753.7	41808.5	43808.4	2602.54	43808.48	504.61
Day's low: 4354.40, Day's high: 4718.15							
99 PAGES TRADING ACTIVITY							Volume : 304,128,790
IN ACTIVE STOCKS				IN BIGGEST MONIES			
Tuesday	Stocks traded	Close	Day's change	Tuesday	Trade price	Day's change	Day's % change
AGF	1,219,443	50.0	0.0	Use	28.5	+2.91	+9.7
FFP	883,013	67.5	-0.85	Yale	6	+4.3	+7.7
TDH	808,008	102.9	+1.41	Elgie	66	+0.7	+0.9
Yale	794,013	50.4	-0.4	Walt	77	+0.3	+0.4
TDH	727,562	37.2	+0.12	Shurt	128.1	+7.7	+5.9
TDH	724,013	51.4	-1.43	Telco	85	+0.3	+0.4
BHP	722,536	77.1	-1.1	TransCSF			
AGF	588,013	70.7	-0.7	Alcan	21.4	-1.0	-3.3
Alcan	501,007	115.8	-1.1	Alcan	180.0	-8.5	-4.4
Veri	501,000	233.2	-3	Dom	62.7	+2.7	+4.1

UK[illegible]

INDEX FUTURES

	Open	Latest	Change	High
■ S&P 500				
Mar	1283.20	1279.20	-4.10	1285.80
Jun	-	1295.60	-	-
■ Nikkei 225				
Open		Sett price	Change	High
Mar	14950.0	15080.0	+310.0	15120.0
Jun	14670.0	15050.0	+340.0	15050.0

Low	Est. vol.	Open int.	Open	Sett Pct
			■ CAC-40 (200 x index)	
276.80	102,416	261,900	Mar	4213.0
-	32,712	131,419	Jun	4232.5
			■ DAX	
Low	Est. vol.	Open int.	Mar	4835.0
4870.0	37,747	117,266	Jun	4863.0
4820.0	9,627	117,039		

	Change	High
0	-28.0	4237.5
5	-27.5	4193.0
0	+3.0	4873.0
0	-2.0	4893.0

Low	Est. vol.	Open int.		Open	Settle
4135.5	48,595	143,316	■ OMIK	730.00	730.00
4138.5	1,182	8,465	Mar	727.25	727.25
			Apr		
			■ ENREX		
4727.5	48,768	240,248	Mar	7221.0	7221.0
4756.5	8,646	140,394	Jan	7175.0	7175.0

Price	Change	High	Low	Est. vol.	Open Int.
100.00	+3.50	732.25	720.00	17,687	118,754
100.75	+2.75	730.50	720.50	1,305	1,427
100.00	+88.0	7286.0	7200.0	19,725	126,153
100.00	+87.0	7224.0	7148.0	1,212	15,861

WORLD MARKETS AT A GLANCE

Country	Index	Mar 9	Mar 8	Mar 5	1998/9 High	1998/9 Low	% Yld	% P/E	Country	Index	Mar 9	Mar 8	Mar 5	1998/9 High	1998/9 Low	% Yld	% P/E	Country	Index	Mar 9	Mar 8	Mar 5	1998/9 High	1998/9 Low	% Yld	% P/E						
Argentina	General	16755.63	16672.35	15925.93	23495.50	2349.98	12.03	10.98	India	BSE S&P	2784.11	2732.10	2640.05	4280.26	2149.68	2784.96	2010.98	na	na	Portugal	BVL 30	4678.23	4777.27	4758.27	6178.08	2249.98	3528.08	2109.98	2.1	28.7		
<i>Traded higher on hopes that new IMF-related accord could help Brazil cut currency transfer limits</i>																																
Australia	All Ordinaries	2500.5	2505.6	2500.5	2540.50	2499.98	2458.20	19.98	2.91	21.1	283.1	736.01	727.56	818.22	2149.68	557.86	2010.98	na	na	Spain	IBEX 35	10765.83	11004.08	11076.02	14388.00	2249.98	8145.81	2109.98	na	na		
<i>Extended by post-quake while buying resumed steadily, sending some of last week's gains into the air</i>																																
Canada	All-Share	589.7	590.7	589.3	715.16	2149.68	499.80	2010.98	na	na	Indonesia	Jakarta Comp.	374.42	344.58	385.67	514.81	2010.98	258.83	2149.68	2.49	17.2	Thailand	SET	73.70	74.71	72.87	415.81	2149.68	39.59	51.98	na	na
<i>Default risk on bonds, but currency remained, good, and transport sectors rose while most others slipped</i>																																
China	HSCEI	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	10.98	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	Turkey	BIST 100	387.73	387.73	387.73	1445.81	2149.68	23.23	21.5	na	na	
<i>Default risk gains after rise in Brazil, Kuala Lumpur, and Taiwan, but record account surplus on exports remains</i>																																
Colombia	FTSE Colombia	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	10.98	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	USA	Dow Jones	9876.31	9876.31	9876.31	1445.81	2149.68	23.23	21.5	na	na	
Czech Republic	FTSE Czech	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	10.98	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	UK	FTSE 100	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	
Denmark	FTSE Denmark	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	10.98	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	
<i>Gave up winning gains on European markets, turned bullish in afternoon trading</i>																																
Egypt	FTSE Egypt	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	10.98	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	
<i>Disturbed in early trading while Malaysia's accord with IMF failed to keep up market</i>																																
France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Japan	Nikkei 225	16876.31	16876.31	16876.31	1445.81	2149.68	23.23	21.5	na	na
Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Korea	FTSE Korea	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Malaysia	FTSE Malaysia	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
Greece	FTSE Greece	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Netherlands	FTSE Netherlands	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Norway	FTSE Norway	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
India	BSE S&P	2784.11	2732.10	2640.05	4280.26	2149.68	2784.96	2010.98	na	na	Hong Kong	HSCEI	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	Poland	FTSE Poland	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Long up in early trading, but currency remained, good, and transport sectors rose while most others slipped</i>																																
Indonesia	Jakarta Comp.	374.42	344.58	385.67	514.81	2010.98	258.83	2149.68	2.49	17.2	Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Russia	FTSE Russia	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Slipped with the report on insurance revenues submitted ahead of news on banking sector restructuring</i>																																
Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Singapore	SEAC All-Share	387.73	387.73	387.73	1445.81	2149.68	23.23	21.5	na	na	Sri Lanka	FTSE Sri Lanka	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Slipped with the report on insurance revenues submitted ahead of news on banking sector restructuring</i>																																
Japan	Nikkei 225	16876.31	16876.31	16876.31	1445.81	2149.68	23.23	21.5	na	na	Taiwan	TSE 100	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Thailand	SET	73.70	74.71	72.87	415.81	2149.68	39.59	51.98	na	na
<i>Extended by post-quake while buying resumed steadily, sending some of last week's gains into the air</i>																																
Korea	FTSE Korea	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	UK	FTSE 100	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	USA	Dow Jones	9876.31	9876.31	9876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Long up in early trading, but currency remained, good, and transport sectors rose while most others slipped</i>																																
Malaysia	FTSE Malaysia	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	USA	Dow Jones	9876.31	9876.31	9876.31	1445.81	2149.68	23.23	21.5	na	na	UK	FTSE 100	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Long up in early trading, but currency remained, good, and transport sectors rose while most others slipped</i>																																
Netherlands	FTSE Netherlands	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Norway	FTSE Norway	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Japan	Nikkei 225	16876.31	16876.31	16876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Poland	FTSE Poland	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Portugal	BVL 30	4678.23	4777.27	4758.27	6178.08	2249.98	3528.08	2109.98	2.1	28.7	Spain	IBEX 35	10765.83	11004.08	11076.02	14388.00	2249.98	8145.81	2109.98	na	na	Sweden	FTSE Sweden	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Russia	FTSE Russia	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Thailand	SET	73.70	74.71	72.87	415.81	2149.68	39.59	51.98	na	na	Taiwan	TSE 100	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Sri Lanka	FTSE Sri Lanka	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	UK	FTSE 100	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	USA	Dow Jones	9876.31	9876.31	9876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Singapore	SEAC All-Share	387.73	387.73	387.73	1445.81	2149.68	23.23	21.5	na	na	France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Spain	IBEX 35	10765.83	11004.08	11076.02	14388.00	2249.98	8145.81	2109.98	na	na	Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Japan	Nikkei 225	16876.31	16876.31	16876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Sweden	FTSE Sweden	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Korea	FTSE Korea	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Malaysia	FTSE Malaysia	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Sri Lanka	FTSE Sri Lanka	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Netherlands	FTSE Netherlands	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Norway	FTSE Norway	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
<i>Shares modestly higher but off last week's gains, helped by year-end gains that took market to seven-month history high</i>																																
Singapore	SEAC All-Share	387.73	387.73	387.73	1445.81	2149.68	23.23	21.5	na	na	Hong Kong	HSCEI	1186.78	1182.68	1177.56	1626.26	2010.98	982.08	2149.68	2.01	12.4	Poland	FTSE Poland	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
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Spain	IBEX 35	10765.83	11004.08	11076.02	14388.00	2249.98	8145.81	2109.98	na	na	France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
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Sweden	FTSE Sweden	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Japan	Nikkei 225	16876.31	16876.31	16876.31	1445.81	2149.68	23.23	21.5	na	na
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Sri Lanka	FTSE Sri Lanka	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Korea	FTSE Korea	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Malaysia	FTSE Malaysia	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
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Spain	IBEX 35	10765.83	11004.08	11076.02	14388.00	2249.98	8145.81	2109.98	na	na	France	CAC 40	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Germany	DAX	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na
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Sweden	FTSE Sweden	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Italy	FTSE Italy	4876.31	4876.31	4876.31	1445.81	2149.68	23.23	21.5	na	na	Japan	Nikkei 225	16876.31	16876.31	16876.31	1445.81	2149.68	23.23	21.5	na	

THE NASDAO-AMEX MARKET GROUP

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STOCK MARKETS

Equities struggle after sell-off in bonds

WORLD OVERVIEW

A renewed burst of selling in bond markets overshadowed trading in equities yesterday, reversing initial gains in Europe and sparking early profit-taking in the US, writes Jeffrey Brown.

A round of unexpectedly solid European data was the main focus for bond investors, notably the German unemployment figures for February, which tipped lower to confound analysts' forecasts for the second month running.

Backed by another upbeat French consumer confidence index, the data allowed Germanising theories about an end to the downswing for euro-zone interest rates to put down even deeper roots.

The sell-off for bonds lifted 10-year German yields to 4.2 per cent, against the 3.6 per cent of late January. Much of the selling was said to be futures-related, but even so it ruffled sentiment in equities and most markets ended lower in volatile trading.

Frankfurt gave up 0.2 per cent and similar falls could be traced right across the main centres, with the benchmark CAC-40 index in Paris swinging between plus 50 points and minus 15.

Helsinki, buoyed by technology giant Nokia, which consistently accounts for 60 per cent of daily trading volume in Finnish equities, managed to notch up a further record high. But yesterday's broad trend - not helped by a London market on hold ahead of the UK Budget - did nothing to dispel the suspicion that investors are still no closer to finding fresh direction.

In a sense, the big share price event of the day was in Tokyo, where Sony surged almost 9 per cent after announcing radical restructuring, involving the loss of 17,000 jobs worldwide. In a market made moribund by political and corporate indecision, the news was seen as a landmark.

Tokyo rallied 2.2 per cent, a pattern that helped lift Hong Kong, which gained 2.6 per cent in spite of a resurgence of talk about a Chinese devaluation.

The renminbi wobbled and took a number of neighbouring currencies with it, notably the Filipino peso. The Manila share market came off 1.5 per cent.

In recent months, volatility among emerging markets has risen to unprecedented levels, keeping many international fund managers firmly at bay. But Morgan Stanley Dean Witter claims to have picked up on an encouraging trend for the sector.

According to Robert Pelosky of Morgan's emerging market team, volatility shows clear signs of peaking, which could bode well for broad emerging market equity returns over the next 12 months.

The list of investor concerns is long. The economic recession is deepening, the price of oil - the country's main source of income - remains depressed, while the government struggles with a widening budget deficit caused by a collapse in oil revenue. To top it off, political uncertainty promises to linger on the horizon for much of the year.

Emergency tax and budget reform measures would raise only 3 to 4 per cent of gross domestic product, according to BBO, a local brokerage. Even after the measures, "the budget deficit remains at 7 per cent and the government seems to have no idea of how to reduce it further," BBO says.

Many investors feel Hugo Chavez, who took office as president in February, is concerned more with his radical political reform agenda than with the country's economic challenges.

His plans for an assembly with powers to rewrite the constitution opens the way for prolonged uncertainty. The assembly is to start this year and could last six to 12 months.

"As long as the political noise over this assembly does not subside and the government does not present a coherent economic plan, there will be no major commitments by investors," said Gabriel Osio, president of Econovest, a local brokerage. "I think we'll see this situation continue at least for another six months."

Meanwhile, the economic recession is deepening. The government last week admitted the economy would do well to contract by only 1 per cent of GDP. Private sector economists foresee negative growth of between 2 and 4 per cent of GDP.

Already hit by high interest rates, all but a few Venezuelan companies now face a dramatic collapse in consumer demand and struggle to pay loans taken out during the promising upswing of 1997 and early 1998.

The woes of paper manufacturer, Venepal, struggling to restructure its \$60m foreign debt, is indicative of corporate Venezuela. Bad loans now represent nearly 6 per cent of the banking sector's loan portfolio, up from 3 per cent a year ago.

The book value of many companies far exceeds their capitalisation, and some analysts believe they can spot value, despite the gloomy economic outlook.

Yet as Gonzalo Alonso, a trader with Activadores brokerage, says: "It doesn't make sense to talk about values. It's been some time since the market has responded to fundamentals." Mr Alonso's recommendation to clients is to "go for liquidity". That, he admits, leaves just half a dozen blue chips, such as the telecommunications provider CANTV and the power utility Electricidad de Caracas.

Raymond Colitt

EMERGING MARKET FOCUS

Caracas suffers amid reforms

Venezuela's stock market, the world's best performing only three years ago, has all but disappeared from view.

Following a drop of 25 per cent for the year to date in dollar terms, transactions have come to a standstill. Daily volumes, once around \$15m-\$20m, have shrunk to an average \$1m and touched \$630,000 last week.

The list of investor concerns is long. The economic recession is deepening, the price of oil - the country's main source of income - remains depressed, while the government struggles with a widening budget deficit caused by a collapse in oil revenue. To top it off, political uncertainty promises to linger on the horizon for much of the year.

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Wall Street climbs after sluggish start

AMERICAS

A series of new deals sent Wall Street climbing by midday, as the overall tone of trading picked up after a sluggish start, writes John Labate in New York.

The Dow Jones Industrial Average turned sharply higher shortly before noon, gaining 55.78 or 0.57 per cent at midday at 9,783.39.

IBM rose 3 1/4% to \$184, but Walt Disney gave up 5% at \$35 1/2 after Goldman Sachs lowered its earnings per share estimates for the entertainment company's earnings for 1999 and 2000.

The broader market was higher as well. The Standard & Poor's 500 index climbed 8.91 to 1,291.64. The strongest performer was the Nasdaq composite index, weighted in high-tech shares, which was up 28.52 or 1.2 per cent to 2,426.14.

In the internet sector, Lycos surged more than 16 per cent or \$14 to \$97, after a battle for control of the online search engine emerged. Lycos board member David Wetherell, who is also head of marketing firm CMGI, resigned and vowed to fight for new terms in the takeover of Lycos by USA Networks. The move sent shares of CMGI up 17 1/2 per cent or more than 8 per cent to \$217 1/2.

Other internet stocks were higher, including online bookseller Amazon.com, up 8 per cent to \$132 after a report that it had filed a suit against leading retailer Wal-Mart.

Online investing company E*Trade surged 8 per cent or \$3 1/2 to \$50 1/2 after Volpe Brown started coverage with a "buy" rating.

Other online traders were up as well, with Siebert and Televisa 3.40 pesos to 152.40. Retailer Cifra gained 28 centavos to 13.70 pesos.

SAO PAULO pared early gains to send the Bovespa index down 138 to 9,648 at midsession. Although Monday's accord with the International Monetary Fund brightened the Real, which jumped 2 per cent against the dollar, sentiment was said by traders to have taken an uncertain turn.

Mexico City adds to gains as peso rallies

MEXICO CITY pushed ahead strongly in early trading, adding to the gains of nearly 8 per cent built over the past three sessions.

The IPC index was up 105.80 or 2.4 per cent at 4,566.85 by midsession.

There was strong buying of blue chips as the peso rallied in the foreign exchanges and Wall Street reversed initial weakness. Telmex rose 75 centavos to 30.25 pesos

and Televisa 3.40 pesos to 152.40. Retailer Cifra gained 28 centavos to 13.70 pesos.

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Zurich rises as rate fears fade

EUROPE

Shares in ZURICH put their recent consolidation behind them as receding worries about the outlook for interest rates and some technical factors sent the market 1.1 per cent higher. The SMI index put on 8.13 to 7,387.2.

Banks were at the centre of attention with UBS gaining SF12 to SF147 and CS Group SF10 to SF123. Analysts saw a price target of SF120-SF130 after the share broke out of its recent range. Baer jumped SF101 to SF147,21 after the private bank said it would launch another share buy-back scheme at the end of March.

Insurer Zurich Allied lost SF125 francs to SF130 after announcing that pre-tax restructuring costs were \$1bn higher than expected.

Roche certificates gave up early gains to close SF170 lower at SF183,370 ahead of 1998 results published after the market closed. Its 3 per cent rise in net profit proved in line with expectations.

Ares Sorono turned back from a high of SF2,240 and closed at SF1,600 lower at SF2,140 in spite of reporting 1998 profits at the upper end of expectations. Ciba slipped SF1 to SF108.50 after Monday's rise. ABB rose SF17 to SF181.94 after the stock broke through technical resistance at SF1,820.

FRANKFURT ended a volatile session with the Xetra Dax index off 0.96 at 4,780.47 after touching 4,869.47 in early trading.

A downbeat trading statement from Adidas, warning of flat sales in the US and Europe, sent the sports shoe group down 65.06 at 679.95. HypoVereinsbank rose 1.15 at 632 after an upgrade from sell to hold by BHF Bank.

Better than expected results from Bayer and plans for a 10 per cent share buy-back, left the stock up 33 cents at 632.88. BASF ended 17 cents ahead at 631.32 in spite of company warnings of a difficult year to come.

AMSTERDAM shed 3.25 at 522.27 on the AEX index with retailer Aldi leading the way down with a decline of 2.8 per cent. Ahold's results were disappointing to

of the rand and global emerging markets crisis. Golds put on 27.8 at 992.4 after breaking above the 1,000-point level for the first time in three months. Industrials rose 54.3 to 7,295.7. De Beers tumbled 600 cents to R100 after it reported a sharper slide than expected in full-year earnings.

BANGKOK tumbled 2.1 per cent as investors took profits in a dozen small companies that could be delisted as part of a recent move by the stock exchange.

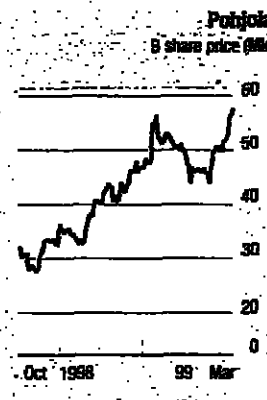
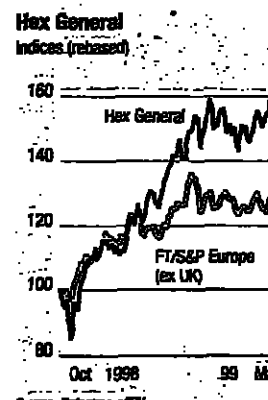
Investors were also concerned about a batch of financial reform bills now passing through parliament. They feared the adoption of the bills, which are facing opposition in the senate, could be delayed until the end of the session on March 22, undermining the rebound of the Thai economy.

The SET index closed 7.09 lower at 329.59. KUALA LUMPUR surged 2.1 per cent on index-buying by foreign funds and large trades by unidentified local buyers that suggested the government was trying to boost sentiment artificially ahead of elections in the Borneo state of Sabah.

The composite index gained 10.67 to 530.53. Conglomerate Renong and its partner UEM contributed to the upbeat mood by announcing a substantial debt restructuring plan, but the move hardly reflected on shares. Renong was down 0.5 cents to 80 cents and UEM unchanged at M33.19.

MANILA moved lower. A wobble in the peso prompted a partial unwinding of the gains built up over the two previous sessions. Brokers said sentiment had been unsettled by the peso breaking back above 39 to the dollar. The composite index closed off 29.87 or 1.5 per cent at 1,998.41.

Financials were in the firing line. Ayala Land lost 50 centavos at 12 pesos and Metropolitan Bank retreated 5 pesos to 295 pesos.



the extent that they were right on target. News of a \$1.75bn US takeover also unsettled sentiment sparking talk of a share issue to finance the deal. The stock lost 96 cents at 633.55.

Hoogovens dipped to 627.20 before closing all square at 627.80 after an upgrade to neutral at Salomon Smith Barney which lifted its target price for the steel maker to 630.

Wolters Kluwer and Elsevier, which report tomorrow, moved in opposite directions. Kluwer added 61.55 at 6176 but Elsevier shed 5 cents at 613.55.

Buhrmann slipped 65 cents to 616.25 on concern for the office goods group's 20 per cent stake in South African paper group, Sappi.

PARIS slid throughout the day before picking up strength in the afternoon while upbeat February consumer confidence figures provided little support. The CAC-40 ended 16.17 or 0.4 per cent lower to 4,139.80.

Most of the action came from volatile car part producer Valeo which surged for the second day running, adding 63.10 to 678. Analysts said Valeo may be benefiting from the good 1999 sectoral outlook in the US, where it made an acquisition last year. Speculation about a European acquisition was also said to be circulating.

Thomson-CSF continued its retreat ahead of its 1998 results published tomorrow. The share lost 61.90 or 6.3 per cent to 628.40 while Lagardere, which reports today, rose 61.50 to 635.50.

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Nikkei jumps back above 15,000

ASIA PACIFIC

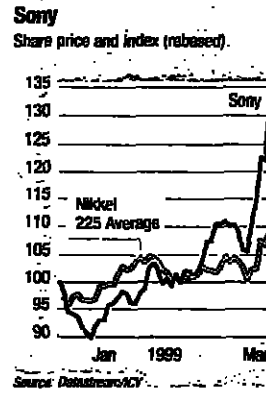
Shares in TOKYO closed above 15,000 yesterday for the first time in more than three months, buoyed by a surge in high-tech and news of Sony's restructuring, writes Alexandra Nussbaum.

The Nikkei 225 Average gained 317.65 or 2.2 per cent to 15,096.70, its session high. The low was 14,842.17. The Nikkei 300 climbed 3.46 to 222.82 and the Topix index of all first-section issues jumped 14.76 to 1,162.51.

Momentum was positive with rising shares outpacing fallers by 646 to 522. Sony, the electronics giant, soared 8.9 per cent or Y990 to Y10,940 on news of a restructuring that would cut 17,000 jobs over four years and transform three affiliates into wholly owned subsidiaries by January.

Stocks in Sony's three affiliates surged. Sony Music Entertainment climbed to its maximum daily limit of Y1,000 to Y8,250. Sony Precision Technology was up Y300 to Y2,030 and Sony Chemicals Y500 to Y5,250.

The electric machinery sector climbed 3.1 per cent, with Hitachi up 5 per cent or



Y47 at Y808. Toshiba climbed 4.8 per cent or Y38 to Y813. NEC rose Y45 to Y1,270.

The yield on Japan's 10-year government bond rose 7.5 basis points to 1.7 per cent following comments by Masaru Hayami, governor of the Bank of Japan, that he expected a rise in interest rates.

The interest rate sensitive real estate sector rose 2.6 per cent, with Mitsubishi Estate climbing Y49 or 4 per cent to Y1,239. Mitsui Fudosan was up Y19 or 2 per cent at Y976.

The banking sector closed up 1.2 per cent, with Fuji Bank gaining 5.8 per cent or

Y30 to close at Y517. Industrial Bank of Japan climbed 3.5 per cent or Y22 to Y630.

In Osaka, the OSE rose 86 to 15,687.

HONG KONG got a boost from Microsoft's planned co-operation with Hongkong Telecom and the government's Cyberport project. The Hang Seng index closed 268.96 or 2.6 per cent higher at 10,532.95 in moderate turnover of HK\$5.8bn.

Speculative buying drove Telecom up to a high of HK\$14.90 before pulling back to close 30 cents easier on the view that while the co-operation agreement was welcome, it was unlikely to have much impact on earnings for some years.

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University College Dublin

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Applications are invited from high-performing individuals with a strong interest in fund management. Postgraduate qualifications and/or work experience are desirable, but not essential. A detailed CV, a statement of professional objectives, motivations for application (no more than 500 words) and two recent passport-size photographs should be sent, prior to April 12, 1999, to:

Università Bocconi
Professor Franco Bruni - Istituto di Economia
Via Sarfatti, 25 - 20136 Milano - Italy - Tel. 39-02.5836.5323 - Fax 39-02.5836.5314

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A committee will select applicants for interviews by the end of April, 1999, in order to offer places to 15-20 students prior to the end of May 1999. Travelling expenses to attend interviews in Milan, course fees and support for travelling and accommodation in Dublin will be financed by the sponsor. On accepting admission candidates are required to pay a non-refundable fee of Euro 2,500.

Financial Times Surveys

Tanzania

Friday March 26

For further information please contact:

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